

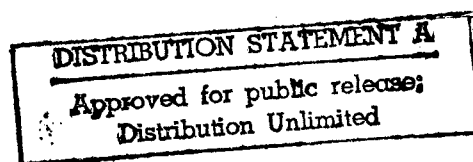
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23 NOVEMBER 1988



**FOREIGN  
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# ***JPRS Report***

# **China**



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# China

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## CONTENTS

23 NOVEMBER 1988

### INTERNATIONAL

#### UNITED STATES

- Scholar Views Left-Wing Organizations in U.S., Predicts 'No Future'  
[*Hong Kong CHIUSHIH NIENTAI* No 233] ..... 1

### POLITICAL

- Article Describes 'Special Characteristics' of Multi-Party Cooperative System  
[*GUIZHOU SHEHUI KEXUE* No 8] ..... 3  
'Predicament' of Country's Intellectuals [*LILUN XINXI BAO* 15 Aug] ..... 5

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Economist Questions Price Reform Under Inflationary Conditions  
[*JIAGE LILUN YU SHIJIAN* No 7] ..... 8  
JINGJI GUANLI on Personal Income, Taxation [*JINGJI GUANLI* No 8] ..... 10  
'Two-Tier' Contracting of Enterprises ..... 14  
Reform of Investment Structure [*JINGJI GUANLI* No 8] ..... 18

#### FINANCE, BANKING

- Taiwanese Investment in Beijing Tops \$100 Million  
[*LIAOWANG OVERSEAS EDITION* 22 Aug] ..... 22  
Ways To Improve Financial Management Discussed [*ZHONGGUO JINRONG* No 8] ..... 23

#### FOREIGN TRADE, INVESTMENT

- Forecast on Long-Term Trade Agreement With Japan [*GUOJI MAOYI* No 8] ..... 27

#### LABOR

- Practices of 'Socialist Labor Discipline' Viewed [*JINGJI GUANLI* No 8] ..... 28

#### AGRICULTURE

- Development of Mainland Freshwater Lake [*Hong Kong LIAOWANG* 29 Aug] ..... 34

### SOCIAL

- Modernization Move Towards 'Procedural Politics' [*SHEHUI KEXUE* No 4] ..... 38

### REGIONAL

#### EAST REGION

- Three Types of Contention Among Different Schools [*WEN HUI BAO* 8 Jul] ..... 43

#### NORTHWEST REGION

- Problems in Higher Educational Systems [*XINJIANG SHEHUI KEXUE* No 4] ..... 43

## PRC MEDIA ON TAIWAN AFFAIRS

Biographies on Chiang Ching-kuo's Extramarital Children	[XIN GUAN CHA No 15]	51
---	----------------------	----

## TAIWAN

'China Complex,' 'CPC Complex' Harass Mainland Policy, Foreign Relations		
[Hong Kong CHIUSHI NIENTAI No 223]		55
Business Circles' Perception of Recent Cabinet Reshuffle	[TZULI WANPAO 1 Aug]	57
Biographical Data on Shirley Kuo	[TZULI WANPAO 17 Jul]	57
Profile of Chang Hsiao-tzu	[Hong Kong CHAO LIU No 17]	58

## HONG KONG, MACAO

Hong Kong Banks Lend More to Mainland Borrowers	[XINHUA]	61
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## UNITED STATES

### Scholar Views Left-Wing Organizations in U.S., Predicts 'No Future'

40050046 Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 223, 1 Aug 88 pp 85-86

[Article by Huan Guocang 1360 0948 5547: "Left-Wing Organizations Have No Future in American Society"]

[Text] In 1980 I came to the U.S. from Mainland China. In 1981 I visited a dozen or so ultra-leftist American organizations, including the American Communist Party, American Communist (Marxist-Leninist) Party, American Progress Labor Party, Socialist Workers' Party, so on and so forth. Before then I had spent some time studying the various branches of Marxism, orthodox, semi-orthodox, and even unorthodox, and have also skimmed through some Western classics on philosophy and politics, including modern non-Marxist works. This made me both eager to debate and good at it. Consequently, I could not help engaging in a round of heated exchange in my pidgin English with the experts wherever I went. To obtain a true understanding of these organizations, I, who had never had the good fortune to attend any party or national congresses back home, sneaked into the "branch" meetings of several left-wing groups and indulged in some wild talk there. This experience proved both interesting and rewarding—it gave me a more accurate and deeper understanding of one facet of American political life. Even more important, I came to appreciate some of the characteristics they share with the ultra-left in China and with the other extreme in American politics—the ultra-right.

These organizations have a tiny membership, rarely more than one thousand people. However, they come under all sorts of labels and inter-group strife is fierce (often exceeding that between them and the Establishment.) They share some intriguing features:

First, they are all god worshippers, their gods being Marx and Engels. Beneath the gods are the patron saints of various sects and factions: Lenin, Stalin, Mao Zedong, Che Guevara, Trotsky, and Luxemburg, to name a few. Below the patron saints are the popes of all denominations and leaders of individual organizations. Gods, patron saints, popes—they are all sacred, beyond doubt and beyond challenge. The intriguing thing is that papal authority is founded on a combination of spiritual power and secular authority (money and organizations.) Never do the disciples think, not to mention act, independently. Otherwise they will be excommunicated.

Second, their power structure is a vertical chain of command, from the top down. At the apex is usually a handful of individuals, maybe one lone individual, giving out orders. The decision-making process at the top is never revealed to the followers. At the same time, all matters large and small at the grassroots, even a follower's personal life, must be reported to the higher level. In

other words, power is highly centralized. The decision-making process is not only personalized but also one-directional. Absent from these organizations are a democratic order and supervisory mechanisms over power. Internal discipline, based on authoritarianism, is strict and enforced vertically.

Third, most of their leaders are intellectuals, many of them from upper-middle class families. They are highly individualistic, driven by a sense of rebellion and a lust for power. By and large the leaders are more sophisticated on a theoretical level than their followers. They may be college professors or independently wealthy. In other words, leaders and followers belong to different social strata and interest groups. Unlike their followers, the leaders are not drawn to politics by direct material interests, but by a combination of personality, ideology, and power hunger.

Fourth, each organization has its own ideology. Apart from loyalty and devotion, all members are required to toe the ideological line. Inside each organization are several theoreticians, most of them from the middle class or higher and well-educated. Their duty is to interpret the scriptures in accordance with the wishes of the leaders and infuse them into the minds of the followers endlessly and simplistically. Never do the organizations encourage their members to think independently. Instead the members are supposed to accept the vulgar tenets rock, stock, and barrel. Interestingly, one of the most important means by which the theoreticians, second- and third-rate intellectuals in society, seek to preserve their position is to control and monopolize the publications of the organizations and the right to interpret the scriptures. I sat in on several "theory discussion meetings" and discovered that even in America with its openness and freedom of thought, left-wing chieftains and theoreticians do what the Chinese did so often in the Cultural Revolution—forbid anybody to question the articles of faith. Even more interesting is that you can seldom find a well-educated intellectual among the rank-and-file of these organizations. As a result, both leaders and theoreticians assume they can interpret the scriptures as they see fit, without having to worry about theoretical challenges from within the organization. In this sense, not only are they on shaky ground as theoreticians, but they are also psychologically insecure.

Fifth, the organizations are far removed from the interests and concerns of mainstream society and are merely part of the unique life-style of their own members. In contrast, the American Communist Party was an influential force in middle- and lower-class America in the 1930's and 1940's and played a leading role in the labor movement. After the McCarthy era, ultra-leftist organizations have never assumed any important part in American political life. They neither initiated nor led the anti-war and civil rights movements of the late 1960's. In those days, student revolts broke out on many American college campuses and left-wing organizations known by a variety of names were everywhere. However, this new

crop of organizations had nothing much to do with existing left-wing organizations and often proved short-lived. In other words, the traditional left-wing organizations have been rejected by the times and by society, having utterly failed to grasp or even keep up with the times. They have become mummified. This situation is all the more pronounced today. In all the many major social movements in the past several years, such as demonstrations against government intervention in Central America, rallies calling for stronger environmental protection, and other movements to broaden civil rights and social welfare, all social and political forces tried to make their presence known. Certainly, that a social or political group finds it necessary to prove to society its existence itself testifies to its dispensableness. In these movements, all left-wing organizations distributed publications, made official statements, and took part in (but not initiated or led) rallies and demonstrations. Yet the majority of society was not interested in them at all. Their tiny band of scores of people were drowned in a sea of humanity. Few people were interested in their publications and their political statements aroused social no response whatsoever. The reason is quite simple: they have been left behind by history. Society needs to be changed, but not in the way called for by these organizations which goes against the lifestyle and thinking of the majority of people.

I have had frank and lengthy discussions with the theoreticians of several left-wing organizations, the central topic being their and their organizations' function and future in American society. Privately, especially after a couple of drinks, they revealed their lack of self-confidence. They realize that their theories cannot explain history and reality, let alone appeal to the public in this rapidly-changing society. They also realize that the future would not belong to them because most young people—representatives of the future—are totally uninterested in their rigid preaching. The mainstream of American workers are indifferent to ideological arguments. American intellectuals can be divided into the liberal and conservative wings, but the radical faction has very limited influence. What is even more frustrating to them is the fact that America is a non-ideological

pluralistic society with a cultural milieu totally incompatible with their exclusive and closed ideology. Even more important, many Americans may discuss an ideology as a way to spend their leisure time, but it is unthinkable to them to practice the ideology, particularly when it requires not only removing oneself from society and reality, but also giving up one's personal life, in whole or in part. An intensively exclusive and closed ideology is doomed in an inclusive and extremely open society.

Yet even as they are powerless to innovate to catch up with changing times, these theoreticians, now past the "prime of life" and even in their waning years, are loath to abandon the rigid ideology that they themselves have come to be skeptical about. One of them told me, "We are frustrated because we live and operate by instinct. We don't belong to the past and certainly not to the future. We can be neither completely sacred nor completely secular."

This is how my contacts with the left-wing organizations came to an end. In the summer of 1981 I was invited to make a report on China's Cultural Revolution before an ultra-leftist group. When I compared the Cultural Revolution to Nazi Germany in the 1930's and 1940's, the more than 100 radicals present could not believe their ears; there was silence all around. A few minutes later, as I continued to discuss the relationship between the Cultural Revolution and ideology, a young female radical, one of the meeting's organizers, turned off the microphone very angrily. I stood up immediately and told the audience loudly, "People who fear dissidence are psychologically insecure. And the psychologically insecure have no future in an open society."

A few years later, this writer came in touch with another extreme in American society—ultra-rightist forces. The interesting thing is that in terms of social behavior and psychology, the ultra-left and ultra-right have many similarities despite the fact that their political viewpoints and ideologies are diametrically opposed to one another. As for the nature and characteristics of the ultra-right-wing, they will be discussed in my next article.

**Article Describes 'Special Characteristics' of Multi-Party Cooperative System**

40050022 Guiyang GUIZHOU SHEHUI KEXUE  
[SOCIAL SCIENCES IN GUIZHOU] in Chinese  
No 8, Aug 88 pp 18-24

[Article by Wang Zhenglie 3769 2973 3525: "The Special Characteristics of China's Multi-Party Cooperative System During the Period of Socialist Reform"]

**[Excerpt] II**

China's multi-party cooperative system is an important special characteristic of China's political system of people's democratic dictatorship. It differs essentially from the two-party or multi-party systems in the capitalist countries of Europe and America, as well as from the one-party and multi-party systems of the Soviet Unions and the socialist countries of Europe.

With the establishment of the PRC, the objective of the various democratic parties ceased to be the endeavor—in cooperation with the CPC—to seize political power, and became the building of new democracy in China under the leadership of the CPC, and later to gradually shift from new democracy to socialism. The political foundation for cooperation between the CPC and the various democratic parties, therefore, became the "Common Program" and the "Constitution," and the form of cooperation was cooperating in the exercise of people's political power and political consultations in political consultative conferences, and consultative conferences between the leading cadres of the CPC Central Committee and the leading personalities of the democratic parties. Having formally established this relationship between the CPC and the various democratic parties, a relationship in which one side is leader and the other side is being led, the relationship between the ruling CPC and the various democratic parties has become one of unique character, if we compare it with party relations in the capitalist countries of Europe and America and those of the Soviet Union and other socialist countries of Europe.

**1) Participation in the Exercise of Political Power and Joint Management of National Affairs Under the Leadership of the CPC**

During the times of socialist reform, state power in China's people's democratic dictatorship is jointly exercised by the working class, the peasant class, the urban petty bourgeois, and the national bourgeoisie, led by the working class and based on the worker-peasant alliance. Cooperation between the ruling CPC and the various democratic parties in the exercise of political power is the highest form of multi-party cooperation in China. In the last seven years, many persons belonging to democratic parties or without party affiliations have been elected as people's delegates, as members of the Standing Committee of the NPC, as members of the commissions of the people's government, as vice premiers of the

government (state) council, and as ministers. After due consultations, the First People's Consultative Conference installed by special invitation or as leading personalities of various democratic parties Song Qingling [1345 1987 7881], Zhang Lan [1728 3482], and Li Jishen [2621 3444 3234] as vice chairmen of the Central People's Government, and Huang Yanpei [7806 3508 1014] and Guo Moruo [6753 3106 5387] as vice premiers of the Government Council. Out of 63 members of the Central People's Government commissions, 31, i.e. 49 percent, were members of democratic parties; of the 32 ministers and chairmen under the Government Council, 13, i.e. 40 percent, were from democratic parties. Among the 1,226 delegates to the First NPC, 558 persons, i.e. 45.2 percent, were from democratic parties or persons without party affiliations; among the 79 members of the Standing Committee of the NPC, 39 persons, i.e. 49 percent, were from democratic parties. Song Qingling, Li Jishen, Zhang Lan, Shen Junru [3038 6874 0320], Huang Yanpei, Guo Moruo, Chen Shutong [7115 0647 6639], and the Dalai Lama Danzeng Jiacuo [0030 1073 0857 2238], i.e. 61.5 percent, were vice chairmen of the Standing Committee of the NPC. Of the 35 ministers or commission chairmen under the State Council, 13 persons, i.e. 37 percent, were from democratic parties. Out of the 81 persons of the National Defense Commission, 29 persons, i.e. 35.8 percent, were from democratic parties. At the local level, a certain percentage of members of democratic parties served as people's delegates, and in the standing committees of people's congresses and people's governments. The system in this way ensured the leadership of the CPC in the exercise of the people's state power, as it also ensured participation of democratic parties in the exercise of state power, and in the formation and execution of decisions on important national issues.

**2) Political Consultation, Democratic Supervision, and Concerted Effort Through the Chinese People's Political Consultative Conference [CPPCC]**

The CPPCC is an important embodiment of the people's democratic united front, and also an important organization for multi-party cooperation.

Prearrangements for the First CPPCC and its actual proceedings fully manifested a spirit of political consultation and concerted effort. Following the response by all democratic parties to the "May 1" appeal, the CPC Central Committee solicited opinions from the democratic parties in Shanghai and Hong Kong on such questions as the time, place, conveners, and number of delegates for holding the new CPPCC. The CPC Central Committee delegated Gao Gang [7559 1511], Li Fuchun [2621 1381 2504], and Pan Zinian [3382 2737 1628] to consult with the democratic parties in Sichuan, Hong Kong, and Shanghai "concerning all questions regarding the convening of the new CPPCC." In February of 1949, after the democratic parties had entered the liberated

area and had arrived in Beijing from Sichuan, Shenyang, Tianjin, and Lijiazhuang, the CPC Central Committee consulted with them in several discussion meetings, reporting meetings, and interviews. In June, the preparatory committee for the new CPPCC was organized. It set up a standing committee with Mao Zedong as chairman, Zhou Enlai, Li Jishen, Shen Junru, Guo Moruo, and Chen Shutong as vice chairmen, and Li Wei-han [2621 4850 3352] as general secretary, and formed six groups, which were headed by Li Wei-han, Tan Pingshan [3389 1627 1472], Zhou Enlai, Dong Biwu [5516 1801 2976], Guo Moruo, and Ma Xulun [7456 0650 0243], to determine the units and number of delegates to the CPPCC, the regulations governing the organization of the CPPCC, the Common Program, the proposed Central People's Government, and the national flag, anthem, and emblem. After a little over three months of intensive study and deliberations, all preparatory work had been essentially completed by the middle of September, and a substantial basis had been established for holding the First CPPCC. In ten days of deliberations, the 634 delegates to the First CPPCC, united as one and working together with one heart, formulated the organic law of the CPPCC, the organic law of the Central People's Government, adopted the Common Program, elected members to the National Committee of the CPPCC and of the Central People's Government Council, proclaimed the birth of the PRC, and thus opened a new chapter in the revolutionary history of the Chinese people.

The Second CPPCC gave additional expression to the spirit of political consultation and concerted effort. After the highest organs of state authority and its executive organs had been created at the First NPC, the functions of the CPPCC changed, but it still remained an important organization of the united front and for multi-party cooperation, as it also still remained an organ for political consultations between the various parties. Before holding the Second CPPCC, the CPC Central Committee consulted with the various democratic parties on all such questions as the nature, tasks, and organizational principles and units of the CPPCC with its new functions, and submitted these questions for deliberation to the 62nd session of the Standing Committee. The CPPCC at that time consisted of 550 specially invited delegates, of whom 150, or 26.8 percent, were members of the CPC, and 407, or 73 percent, were nonparty members. In the way invitations were issued to delegates, particular emphasis was placed on furthering the struggle against the enemy within the country and abroad, on furthering a broader field of unity, and on inducing participation of high-ranking Kuomintang military and civilian personalities such as Weng Wenhao [5040 2429 3493], Zhang Zhijiang [1728 0037 3068], and Lu Zhonglin [7773 6988 7792]. In the course of its deliberations, the CPPCC formulated the statute of the CPPCC and, furthermore, clearly formulated, according

to the principles of the constitution, seven guiding principles that have to be observed by all units and individuals participating in the CPPCC, to constitute the political foundation for multi-party cooperation.

### **3) Political Consultations Through Discussion Meetings and Special Conferences**

As yet another form of multi-party cooperation, the CPC Central Committee held consultations or special conferences as means of political consultation of the various democratic parties concerning decisions on important national affairs and work programs for the democratic parties.

When land reform was discussed at the Second Session of the First CPPCC, certain doubts were raised and erroneous ideas were voiced opposing land reform and proposing "peaceful land reform." Leading cadres of the Central Committee invited the democratic parties to discussion meetings, in which they explained the policy, drew a clear line of distinction between right and wrong, established ideological rapport, reached a common understanding, and unanimously passed the "Land Reform Law of the PRC." On the outbreak of the Korean War, when the flames of war reached the banks of the Yalu River, the Central Committee decided to dispatch troops. Zhou Enlai and Li Wei-han arranged three discussion meetings with the democratic parties to reach a common understanding, and published a "Manifesto of All Democratic Parties" in support of the War to Resist U.S. Aggression and Aid Korea and to protect home and country. In March of 1952, Mao Zedong invited Huang Yanpei for a talk to hear the China National Construction Association's proposals for future work subsequent to the "three anti's" and "five anti's" movements. This talk guided the development of the China National Construction Association. In September of 1953, Mao Zedong invited Li Jishen, Chen Shutong, and Huang Yanpei to a conference to hear a report and deliberate on the general political line of the party during the transitional period and on the question of a peaceful transformation of the national bourgeoisie. In October of 1955, he again invited Chen Shutong, Li Zhuchen [2621 3608 1057], and Rong Yiren [2837 3015 0088] twice to conferences to systematically clarify the party's policy of peaceful transformation and the policy of redemption. These conferences promoted the socialist transformation of bourgeois industry and commerce. In September of 1954, in the latter part of the First Session of the First NPC, the Politburo of the CPC Central Committee made recommendations for the nation's leadership. At that time, Mao Zedong, Zhou Enlai, and Li Wei-han sincerely conferred with the democratic parties and solicited opinions on a broad scale before finally submitting recommendations to the NPC, which then created the nation's leadership in democratic elections.

### **4) Superiority Over Two-Party and Multi-Party Systems of European and American Capitalist Countries**

There are substantial differences between China's multi-party cooperative system and the two-party and multi-party systems of the European and American capitalist

countries, and these differences clearly show the inherent superiority of the Chinese system.

Among the European and American capitalist countries, Great Britain and the United States are typical examples of the two-party system, and France is typical for the one-party system. The bourgeoisie proclaims these systems to be the most "democratic" party systems. But in actual fact they are oligarchic regimes where, in rotation, as soon as one party releases its grip on power, the other party seizes state power. This is determined by the way of capitalist competition in which one side always tries to squeeze out the other side. It is a means to protect the dictatorship of the monopoly capitalist class. The vast number of working people are not only deceived and duped, but also deprived of enjoyment of benefits from this most democratic system. The nature, class structure, and class contradictions of capitalist countries bring it about that it is absolutely impossible for them to arrive at a multi-party cooperative system with one party exercising core leadership.

China's multi-party cooperative system is a major characteristic of the political system of people's democratic dictatorship. The various democratic parties openly proclaim acceptance of the leadership of the CPC, and accept the "Common Program" and the "Constitution" as the political guiding principles of their own parties. They participate in the exercise of the people's state power, participate in the formation and execution of decisions on important national issues, and voice the interests, opinions, and demands of the classes and strata they are related with. This fully manifests the comprehensive nature of socialist democracy. The relationship between the ruling CPC and the various democratic parties is one as between friendly parties, where one side leads and the other side is being led, but also one of long-term coexistence, mutual supervision, and of cooperation and working together. A political party system of this nature is not a two-party or multi-party system where the parties try to squeeze each other out; it is rather a new type of political party system which is superior to the said two-party and multi-party systems.

#### 5) Difference to One-Party and Multi-Party Systems of the Soviet Union and the Socialist Countries of Europe

China's multi-party cooperative system also differs from the one-party and multi-party systems of the Soviet Union and the socialist countries of Europe.

The objective historical development in the Soviet Union, in Albania, Yugoslavia, Hungary, and Romania led to the formation of a one-party system. After victory in the October Revolution, Lenin once had the idea of implementing a multi-party cooperative system under the leadership of the Bolshevik party, admitting members of the socialist revolutionary parties to participate in the people's commissariats. However, at the time of armed foreign intervention and civil war, members of the socialist revolutionary parties planned opposition

against the Soviet regime, instigated the kulaks to revolt, schemed to assassinate Lenin, and after the end of the civil war continued to oppose the Soviet regime, so that there was no other way than to suppress them. The historical development in the four countries of Albania, Yugoslavia, Hungary, and Romania also led to a situation of having only one party, the communist party, in power. The other political parties either merged with the communist party, or, when they opposed nationalizations after joining the government, ceased activities or were dissolved. The mentioned five countries, therefore, did not develop a multi-party cooperative system under the leadership of the communist party.

The objective historical development in the GDR, in Poland, Bulgaria, and Czechoslovakia led to the formation of multi-party systems. The democratic political parties in these four countries accepted the leadership of the ruling party and also aligned themselves with the ruling party in core ideology. They participate in the people's parliaments (congresses), where they occupy a certain number of seats. They all join such united front organizations as the national front and the motherland front. All this is essentially the same as with China's multi-party cooperative system. But the leadership by the ruling party in the four countries over the democratic parties had mostly been established as a consequence of victorious revolutions, while in China there had been a long history of cooperation between the ruling party and the democratic parties, and leadership authority had come about in a natural way and had not been forcibly imposed. In the four countries, the democratic parties participate in the people's parliaments (congresses), but in China the democratic parties not only participate in the NPC and its Standing Committee, but also in the government and bear important responsibilities in the leadership of the nation. In the four countries, the democratic parties extend singular cooperation in the united front organizations, but in China there is in the CPPCC wide-ranging political consultation, democratic supervision, and concerted effort as between the ruling party and the democratic parties. The multi-party system of the four mentioned countries and China's multi-party cooperative system, therefore, each have their own particular characteristics.

**'Predicament' of Country's Intellectuals**  
40050035a Beijing LILUN XINXI BAO [THEORY  
INFORMATION] in Chinese 15 Aug 88 p 3

[Article by Rong Jian 2837 0494: "Decline of Chinese Intellectuals Analyzed"]

[Text]

#### I. Social Role and Historical Mission of Intellectuals

1) Non-intellectuals usually tend to identify with the status quo and willingly submit to the control of social



mechanisms, unless the existing social mechanisms are falling apart and forcing every member of society to make new choices.

2) The intellectual has played an independent social role throughout history. He is both the shaper and critic of the world as it is. He is above deification. The intellectual is the barometer of the world. He is the self-consciousness of the world. He is the antithesis of the rationality that is both in the world and outside it. He is the creator and interpreter of world conflicts.

3) The intellectual's restless soul is the discordant note in the world. There must be a long-drawn-out process before society identifies with the ideals of the intellectuals. During this process, society's elite, who is in the minority, comes into conflict with society's conventional wisdom. The intellectual's historical mission is to resolve this conflict in accordance with his own methods.

## II. The Dilemma of the Chinese Intellectual

4) Historically, the Chinese intellectual has always had difficulty in fashioning his unique social role. The shaper of the world, he is also consciously performing his part as a tool of social control. Although the intellectual has been trying to revive his independent personality throughout the period from the late Qing Dynasty to the May 4 movement, his fate was controlled by the mighty power of historical inertia. The intellectual's failure to emerge independent from social control is an important reason for the perpetuation of the traditional Chinese society.

5) After the "Cultural Revolution" disaster, the principles put forward two basic demands to intellectuals: first, the demand of social development on intellectuals, and, second, the intellectuals' demand on themselves. As far as the first demand is concerned, it will inevitably become intellectuals' objective criticism. As for the latter, it will certainly become subjective criticism.

6) Both subjective and objective criticism, however, have remained demands in principle. The predicament of the Chinese intellectual is that he is facing the dichotomy between what is and what ought to be. Consequently we must examine the social reasons that brought about the decline of the Chinese intellectual before we put forward the historical mission of dual criticism.

## III. The Corrosion of Poverty and the Transformation of the World Outlook

7) The prolonged spiritual decline and devitalization of Chinese intellectuals was essentially the result of dual devastation—the corrosion of poverty and the transformation of the world outlook—wrought by leftist thinking both physically and psychologically.

8) The tragedy of the Chinese intellectual is the corrosion of his critical spirit by unbearable poverty. "Hunger therapy" has reduced intellectuals to ordinary mortals

struggling for survival. Hard Labor, the so-called "May 7 road," has robbed them of their right to think. To solve the poverty that still exists among Chinese intellectuals, therefore, we must proceed from the philosophical and sociological viewpoints.

9) Chinese intellectuals were spiritually destroyed also by the transformation of the world outlook that went on for years. The transformation of the world outlook was premised on the assumption that the intellectual belonged to the bourgeoisie. The result of an education that sought to remold an individual completely is two mistaken notions. First, society's misunderstanding of intellectuals. Hence its contempt for them. Second, a sense of "original sin" on the part of the intellectuals themselves. As a result, they came to believe that they are not critics, but somebody to be criticized.

## IV. Self-Restoration: Self-Criticism and Other-Directed Criticism

10) The intellectual's intuitive ability and intuitive knowledge are crystallized in his creative spirit and critical spirit. And criticism itself is a form of creation. Since the thought liberation movement got under way, the revival of self-consciousness among intellectuals has been going on feverishly. The revival of self-consciousness is a self-awareness movement and a critical process.

11) Subjective criticism is self-criticism. In China's particular historical cultural environment, self-criticism by intellectuals is especially important. Therefore, intellectuals must be fully equipped with a sense of introspection, a sense of repentance, a sense of anxiety, autonomy, crisis, and criticism. He must have a sense of historical mission and a sense of responsibility.

12) Other-directed criticism is intellectuals' criticism of the world on which they depend for existence. It is merciless dissection of the social, economic, and political pathologies. It is the reshaping and transformation of the natural spirit. It is the awakening of society's self-consciousness. The objective of criticism is to establish a more rational form for the world.

## V. The destiny of Chinese intellectuals: Weapon of Criticism and Criticism of Weapon

13) The re-establishment by intellectuals of their independent social role depends on a specific historical environment. The intellectual's fate will be determined by the ability of his criticism to generate a profound social response.

14) The criticism by intellectuals is only a weapon of criticism. However it takes the criticism of weapon to transform the world. Accordingly, we must find a way to

shift from spiritual criticism to material criticism. Essentially such a change would bring together intellectuals and social forces and unite conceptual changes with social changes.

15) China's predicament is widespread social decay. The failure to establish a pluralistic society with multiple independent interest strata has left the intellectuals dependent on the state. At the same time, in refusing to

recognize their role, society has not provided intellectuals with a better living environment. Isolated from society, intellectuals are unable to achieve something on their own.

The intellectuals' fate in future changes in Chinese society hence depends on this dialectical relationship: Can intellectuals mobilize society with their spiritual appeal? Can society provide intellectuals with powerful material support?

## NATIONAL AFFAIRS, POLICY

### **Economist Questions Price Reform Under Inflationary Conditions**

40060073 Tianjin JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese  
No 7, 20 Jul 88 pp 6-8

[Article by Zhang Zhuoyuan 1728 0587 0337: "Can Prices Be Properly Adjusted Under Inflationary Conditions"]

[Text] Recently, in view of the fact that there is no getting away from price reform, while the economic climate is strained, and the rate of commodity price increases have reached double-digit figures, some comrades have put forward the idea that it is possible to pursue price reform and to straighten out price relations under conditions of currency inflation. This is the refurbished version and specific application of what we may call the theory of carrying on and intensifying economic structural reforms under conditions of strained economic relations. In my opinion, this line of thought is theoretically untenable. If it were put into practice it could lead to unforeseeable consequences. Theoretical research and the practice of reform tend to confirm that not only is it impossible to carry out a thorough price reform under inflationary conditions, but precisely the contrary is true: the reform can be smoothly carried out only when inflationary interferences are completely absent.

It is most important in price reform to achieve a shift in the pricing pattern, namely from a system of administratively-determined prices to a system of market-determined prices. The reform may be more or less divided into two large phases: 1. The initial appropriate adjustment of price parities and price differentials where these had been most irrational, and to initially straighten out price relations so that all the various trades and departments may obtain more or less equal capital profits and may be able to achieve more or less balanced supply and demand relations. 2. The gradual decontrolling of prices for most products (and services), allowing market regulation to even out prices for all products, and allowing prices to fluctuate according to changes in supply and demand. Because prices have been controlled for a long time under the traditional system, a concealed currency inflation has been in existence. The adjustment and decontrolling of prices must therefore concentrate efforts on resolving the problem of concealed inflation, allow it to come out into the open, and cause the general level of commodity prices to rise. How high, then, will the general level of commodity prices rise during the adjustment and reform of the price structure? Arguments differ. In the past it was generally believed that as far as only material products are concerned, their prices will rise by around 50 percent. Some comrades believe that together with such key production elements as interest rates and wages, and adding the costs of the reform itself, the general level of commodity prices may go up on a one

time basis. The premise for all this is that there will be no new excessive supply of currency and currency inflation, which means that the commodity price increase is, or is primarily, limited to the release of formerly restrained or concealed currency inflation. Because the reform will not be accomplished instantaneously as soon as the order is given, but will rather be realized gradually, the rise in the general level of commodity prices may be split up, and may last 10 or so years, so that the annual rate of increases of commodity prices will be within 4 to 5 percent limits, and will in general not have a shock effect on economic life. On the whole, it was precisely along these lines that China's price reform proceeded up to 1985 and 1986, and did so essentially with good success. Following are some figures to demonstrate this point. Taking 1987 prices as 100, the general index of retail prices for the whole country would be 128.1, the general index for staff and workers cost of living 134.2, the general index for the cost of procurements of agricultural and agricultural sideline products 166.8, and the general index of retail prices of manufactured goods in the rural areas 111.1. This indicates that the price differential between industrial and agricultural products had diminished. At the same time, the ex-factory price level of various industrial products also developed in a reasonable way. If we compare 1986 with 1987, products of the mining industry increased 55 percent, products of the raw and semiprocessed materials industry increased 45 percent, and products of the processing industry increased 13 percent. This state of affairs enabled improvements in price relations of primary products and of processed goods, which had been underpriced to begin with.

However, after 1985, the occurrence of currency inflation and the trend for further inflationary developments caused the price reform, which had originally proceeded very smoothly, to become disturbed, and caused the structural price adjustment and reform to turn into universal price rises and indeed rises several times over. In this way, first, the procurement price of grain contracts again became the "bottom of the pot" in the whole price system, and, starting with the agricultural products, a new wave of commodity price increases could not be avoided. Second, the rate of price increases for the products of the processing industry during the last two years was not lower, but even higher than the rate of price increases for raw and semiprocessed materials. The problem of underpriced primary products was far from being solved and gradually became a conspicuous problem. From 1978 to 1987, the general index for retail commodity prices rose 45.7 percent, and if we add to it the industrial means of production, the rate of increase in the general index of commodity prices by far exceeded 50 percent. However, the present distortions of price relations are similar to those at the beginning of the reform, mainly manifesting that prices for agricultural products, of which grain is representative, were too low and prices for primary products of industry were also too low. Why would it be like this? The principal reason is that under inflationary conditions, the government, in

order to control the steep rise of commodity prices, frequently resorted to price control. It would first control the prices of grain, sources of energy, raw and semiprocessed materials, as these are bulk commodities, are important, and also easy to control. But prices for the thousands upon thousands of other decontrolled products could not possibly be controlled even if attempts would have been made. As soon as products were placed under control, their prices increased little, but the price differential to other decontrolled products grew and expanded, so that the controlled prices will gradually sink to the "bottom of the pot" in the price system.

Due to continued inflation over the last few years, just when there was a shortening of the time differential between the excessive issue of currency and its turning into pressure on commodity prices to rise, the impetus of commodity prices rising several times over had the rate of annual commodity prices develop a tendency of accelerated increases. In 1987, the rate of increased issue of currency and the rate of economic development were 10 percent apart, but in the first quarter of 1988 retail commodity prices increased at the rate of 11 percent and continued to maintain an upward tendency. The excessively high increases in commodity prices had people anticipate further inflation and had enterprises and units not give attention and energy to technological improvements, improvements of management, and to raising returns, but rather to hoarding, speculating, profiteering, and vying with each other in raising prices, and also in taking advantage of monopolistic or privileged positions to seek huge profits in circulation. This situation could only bring further confusion to price relations and new distortions to such price relations that had already been straightened out. Up to today, under the inflationary conditions, we can see examples only of distortions in price relations, but no examples of price relations being properly straightened out. In Yugoslavia, prior to the 1980's, prices were gradually decontrolled, and price relations gradually developed in a rational way. However, when currency inflation set in later and grew increasingly serious, the government resumed commodity price controls, and by the end of 1986, 62 percent of all products were under some degree of control. The common problem that every socialist country experiences in its price relations, namely that agricultural products and primary industrial products are underpriced, had again become at that time Yugoslavia's major problem.

In China, for the reason that market relations are underdeveloped, market rules are imperfect, market order is chaotic, and commodities are priced according to a double-track system, the social injustice brought about by currency inflation and commodity price rises is even more serious. A smaller section of the population gets very rich, while the majority of those who rely on salary or wage incomes, feel huge economic pressure. In 1987, the actual incomes of 21 percent of the urban households were lower than the year before, due to the rise in commodity prices, and compared with 1985 and 1986

many more had reduced incomes because of the rise in commodity prices. These urban households are mainly those of government cadres, teachers, and retired people, who have no other income from labor, as well as some staff and workers of enterprises and industrial units who had received small money awards or bonuses. In the future, with further accelerated commodity price increases, the injustice in the distribution of incomes will grow even more serious, and at that time induce some units and individuals to seek increases in their incomes in irregular ways. We are afraid that this is what everybody can sensibly deduce from the present situation.

Under inflationary conditions, the various contradictions in the current price relations can only partially and temporarily be resolved; a radical solution is impossible. Only the outer symptoms can be cured, not the roots of the malady. It can very often be observed that rises in the prices of certain products or in the general level of commodity prices can only be stopped and prevented from rising further by administrative interference, and if it is then really impossible to bring the prices down and the items are decontrolled, they will go up sky-high. When certain products are seriously underpriced, which adversely affects their production, and when this becomes a most prominent problem in economic life, raising their prices a little will temporarily alleviate the contradiction. For a certain period of time, the increases many times over of some products will have other products remain seriously underpriced, and grain prices are a typical example for that. In brief, the situation always remains one of "the knot is not cut, and confusion endures." Matters concerning commodity prices are normally in a passive state, and it is difficult to carry out active and effective adjustments and reforms in this area.

Inflation is also detrimental to a straightening out of prices in a broad sense.

Inflation easily engenders negative interest rates, i.e. the nominal interest rate is lower than the rate at which commodity prices rise. This has been the situation in China since 1985. It is bound to adversely affect the normal development of the economy, because this situation will in general have the following consequences: 1. It encourages indiscriminate investments, especially encourages the rapid development of departments and enterprises that are in a position to obtain preferential loans, causing a deterioration and structural imbalance in the disposition of capital and resources, which are very short to begin with. 2. There will be loss of control over loans and an excessively fast supply of currency, also an increase in speculative demand for commodities and tangible assets. 3. It will dampen the enthusiasm for savings among the people, will prevent reform of the financial structure and the development of a financial market, and will encourage those holding currency to hoard commodities and invest in land and nonfinancial assets. 4. Because the speed of China's currency devaluation could not catch up with the speed of inflation, an

overvaluation of the currency resulted, which was having a depressing effect on exports, which in turn will have an adverse effect on the balance of international payments. 5. It will cancel out the effect of rational adjustments of prices and constitute a negative influence on economic growth. 6. Currency inflation is recognized by the leaders in all countries to be a dangerous game. Once any country (particularly a developing country) will find itself on the road of inflation, it will often find it hard to gain control again, and the situation will, furthermore, easily get worse the longer it lasts. Many foreign experts believe that in China a fairly reasonable actual interest rate should be above 2 to 4 percent<sup>1</sup>, but this is a matter that will be absolutely impossible to achieve under inflationary conditions.

Currency inflation is bound to send wages and commodity prices spiraling up, and wage increases will outpace productivity. International experience indicates that the alternating rises in wages and commodity prices is a most disquieting situation in economic life. Under these circumstances it will also be impossible to carry out a rational adjustment of the wage structure.

This is so because under inflationary conditions, the wage income of many persons will frequently not be determined by the normal income of enterprises from production and business operations, but will be greatly influenced by price changes and income from speculation and profiteering. A conspicuous example of this is the fact that there is an inverse relation between incomes from mental work and incomes from physical work, and the fact that wage and salary incomes in circulation enterprises are higher than those in production enterprises. According to statistics of relevant departments, 10 percent of all the 12 million individual industrial and commercial entrepreneurs throughout the country have incomes in excess of 10,000 yuan a year. In 1987, the average annual wage or salary income of staff and workers throughout the country was 1,410 yuan, but in some money-making public agencies (e.g. designing institutes), contracting firms, enterprises, as well as large restaurants and hotels staff and workers' incomes were comparatively high. Staff and workers in some designing units had, in addition to salary and wage incomes, other annual income that generally could reach 1,500 to 2,000 yuan, in some cases even as high as from 5,000 to 10,000 yuan.<sup>2</sup>

To sum up, under inflationary conditions it is impossible to properly adjust prices, whether in the broad or in the narrow sense, and they will become even more distorted. It is therefore unrealistic to place our hopes on being able to straighten out price relations under inflationary conditions. The only fundamental solution is to bring inflation under control and control the excessively fast increase in the currency supply, so as to provide an excellent environment for price reform.

#### Footnotes

1. "When Citizens' Savings Are in the Form of Financial Assets (Fixed Deposits, Treasury Bonds) the Rate of

Real Returns Must Be Insured at a Rate Higher Than From 2 to 3 Percent" in *SHIJIE JINGJI DAOBAO* 18 April 1988 p 11

2. Distribution Bureau and Macroeconomic Bureau of the State Commission for Restructuring Economic Systems, "The Unfair Social Distribution and Ideas on Countermeasures" and "Internal Reference Material on the Economic Structural Reform" Issue No 2 (1988)

**JINGJI GUANLI on Personal Income, Taxation**  
*HK2810040388 Beijing JINGJI GUANLI*  
*in Chinese No 8, 1988, pp 14-17*

[Article by Hou Yunchun 0186 7189 2504, edited by Lin Daojun 2651 6670 0689: "Quickly Establish a Sound Personal Income Regulatory Structure"]

[Text] Recently people have constantly been discussing the questions of justice and efficiency. Basically speaking, justice and efficiency are united. The distribution of justice can to a maximum degree raise efficiency. However, a contradiction still exists between justice and efficiency. Justice demands that between constituent members of society there is no excessive difference in their actual income. On the other hand, efficiency demands widening the discrepancy in income so as to maintain a sufficiently strong stimulation. How to give due consideration to both justice and efficiency has become a world problem.

Since enforcing reform and opening to the outside world in our country, we have initially broken the state of enterprises' eating from the same big pot at the state's expense and of staff members and workers' eating from the same big pot at the enterprise's expense. Different kinds of distribution forms centered mainly on distribution according to work have been initially established and great changes have been made in the distribution pattern. This has created the precondition for solving the contradiction between justice and equality. But in reality, in income distribution of the constituent members of society, two prominent contradictions still exist: On the one hand, within the public ownership system, and within the same industry, trade or enterprise, the differences between the income of the staff members and workers have not yet been widened and the stimulating effect has not been strong enough; on the other hand, between different enterprises, industries and trades, and different ownership systems, the incomes of the constituent members of society have differed greatly one from the other. This has produced enormous effects on the enthusiasm of many staff members and workers, particularly those in enterprises owned by all the people and the public servants of the state. Hence, how to pay equal attention to justice and efficiency, and solve the contradictions between them, as well as have them organically joined together and united, has become an important problem in reform and development and even in social stability. And the road to solving this problem lies in setting up, between the normal income and the actual

income of the social constituent members, a buffer and regulatory equipment or device; that is, establishing a sound personal income regulating structure which is suited to the demands of developing a socialist planned commodity economy.

## I

A personal income regulatory structure refers to an organic structure which, using the personal income tax as its principal lever, keeps in mutual liaison and mutual restriction, and effectively regulates, the incomes of all the constituent members of society (including income from labor and income from non labor). It should embody three basic contents: 1. Mutually coordinating and mutually supplementing forms of tax, tax rates such as those of personal income tax, property tax, inheritance tax, gift tax and other corresponding tax rates; 2. a flexible tax reduction and tax exemption policy and stern rules and regulations governing fines for tax evasion and non payment of taxes, as for the sake of encouraging individual savings and accumulations, exemption of personal income tax on savings and interest income, and so forth; 3. stringent rules on reporting, registration and statistics of personal income and tax collection, supervision and examination systems. The personal income regulatory structure protects the low-income people, limits high income and is generally beneficial to manifesting the principle of justice. At the same time, since this is post-affairs regulation of personal income, and places no hard limits on the "ceiling" of boundary-line incomes, it can produce no passive effects on the social constituents' enthusiasm for engaging in various kinds of production and business activities. On the contrary, it can prevent the bad effects of laziness and lavish spending on the part of those who have found it easy to earn a high income.

Rigidly speaking, at present in our country regulation of personal income has not yet formed an integrated system and serious defects are found in the existing regulatory tactics. First, its coverage is too small. The starting point of our country's existing personal income regulation tax is too high. Very few people are up to the tax-paying standard of an income of 400 yuan and above. Second, computation of one personal income is not scientific. For example, on the irregular income of one lump sum payment or receipt of labor earnings extending over a rather long period or even over many years, the existing method calls for collection of the income tax on each and every payment. This is not exactly rational. Third, regarding the personal income of individual bodies and production development funds in privately-run business units, no strict demarcation is made between them. This not only cannot manifest the role of encouraging accumulations and savings but also the role of restricting high consumption. Fourth, in the collection of the bonus tax and the salary and wage regulatory tax from state-owned enterprises and collective enterprises, the main body subjected to the tax is the enterprise and not the staff members and workers. This not only cannot reach the

objective of controlling the granting of bonuses but also easily encroaches on the production and development funds of the enterprise. Fifth, on the reporting, registration and statistics of personal income and the collection of personal income tax, the work done has been extremely weak. Phenomena of tax evasion and various forms of corruption are very frequent. Sixth, the forms of tax are unitary, there being no coordinating taxes. Regarding the gift and endowment tax and the inheritance tax, coordinating tax kinds are still a blank. Even though collection of the personal income tax is rigidly enforced, there is no way to avoid the phenomena of the legal evasion of taxes on personal income and the transfer of private properties.

It can be seen from the foregoing that our country's existing regulatory structure of personal income is extremely imperfect. Basically there seems to be no system at all, and if there is one it could hardly perform its functions. No special harm was done in the past under the old structure of egalitarianism and everybody eating from the same big pot. But following the gradual deepening of the reform and changes in the distribution pattern, it appears exceedingly urgent that the personal income regulatory structure be quickly perfected.

## II

A sound and integrated personal income regulatory structure with the personal income tax as the principal body is the most important measure of many countries in regulating the income of the constituent members of their societies. Seen from the current conditions in our country, perfection of the personal income regulatory structure carries the following important meanings:

First, it is beneficial to manifesting the socialist principle of justice in distribution and fully arouses the enthusiasm of the entire body of social constituents. Due to irrational prices, an imperfect tax collection system, an unequal competition and many other factors at present in our country, under the conditions of failing to completely wreck the old egalitarian practice of everybody eating from the same big pot, the question of excessive differences in income has made its appearance. With a small number of people enjoying high income, a malicious example has been set in society, attracting other social constituent members to follow and compete with each other. This not only has caused a steep inflation of the consumption fund but has also aggravated the feelings of injustice and discontent among the constituent members of society. This has given rise to the abnormal psychology of universally feeling ill-treated and has seriously affected people's enthusiasm. Perfecting the personal income regulatory structure and making due with the regulation of excessively high personal income will help change this situation.

It needs to be pointed out here that regarding the public's striving for top honors and their discontented attitude, they cannot be categorically blamed for the "red eye

disease," or extreme jealousy. It must be admitted that the excessively high income of a portion of the people not only is unacceptable by the vast masses but also counters the socialist principle of just distribution. According to the Marxist theory of labor value, value is created by the labor of workers. Social wealth, by means of market transactions, is concentrated in enterprises which have managed and operated well in and presently are in the hands of certain individuals. The great proportion, aside from the portion serving as compensation for "more work more pay," should continue to be used on production and operation, so that even more wealth can be created for society and by no means should it be wholly spent on individual consumption. This principle should be ensured to be implemented by means of collection of the personal income tax and using the legal form. However, at present in certain individual bodies and privately-run business units, not only is there no manifestation of this principle but also the necessary deduction by society is not made. Obviously this is highly irrational. According to certain available information, in foreign countries the highest tax rate on personal income is far higher than that in our country. In the United Kingdom, the highest tax rate on salaries and wages and other income from labor at one time reached 83 percent and the highest tax rate on non labor income such as interest and share interest was once as high as 98 percent. In our country, the highest rate on citizens' personal income regulatory tax is only 60 percent, not to mention the many loopholes in the actual collection work.

Collecting a highly cumulative personal income tax from those people earning a high income is beneficial to a just distribution. There is no question about that. But will this not adversely affect the enthusiasm for production and operation on the part of those earning a high income and cause their production and business to wither? In reality, if matters are adequately handled, such a condition will not happen. In Shanghai Municipality, a large-scale investigation was once made. The results showed that in the early stage of the operation, in the case of individual households, for the sake of recouping their capital and making more profits, more of them would put in more investment while few would spend the money on living and consumption; after having earned definite profits, more of them would on the one hand earn money and at the same time enjoy life; in the case of individual households who had been in operation for some time and earned plentiful profits, a relatively large number of them would spend lavishly. Seen from the outlay side of the profit earnings of the individual households, only 20 percent was spent on expanded reproduction. It should be said that the appearance of such a situation was largely caused by the imperfection of the personal income regulatory system and by too much money being earned and earned too easily. As far as these individual households and private business units are concerned, perfecting the personal income regulatory system should include the following: First, the accumulation funds and consumption funds should be

separated and the portion of the funds for increased investments and expanded reproduction should receive the benefit of exemption or reduction of the personal income tax, while the portion of funds used on individual spending and consumption should be subjected to a cumulative personal income tax at a high rate, such that their actual income would be about equivalent to, or only slightly higher than, the income of other social constituent members in general. Through this, production and operation will be protected, exorbitantly high income will be restricted, and the individual operators will revert to the initial stage of operation; that is, they will have the initiative or inclination to maintain a strong desire to invest.

Second, it is beneficial to encourage accumulations, regulate consumption, stabilize commodity prices and relieve the pressure of inflation of consumption funds. The rise in commodity prices is currently an outstanding problem in the national economy. Despite the many measures taken by the state and local governments at various levels, commodity prices can still not be stabilized. The basic cause is due to inflation in consumption funds in recent years. Inflation in consumption funds exerts two kinds of pressure on commodity prices. One is the pressure to widen the contradiction between supply and demand and the other is the pressure to push the rise of the cost of production. Seen from the general trend, in recent years inflation of consumption funds has not yet spent its full force in its effect on commodity prices. For some considerable time, the rise in commodity prices is likely to be sustained. Against this, an ineffective remedy such as proverbially "trying to stop water from boiling by scooping it up and pouring it back" is perhaps needed. But to basically solve the problem, it is still necessary to take a drastic measure such as attempting to solve the problem of consumption fund inflation. Recalling what we have passed through during the past years, the lessons that we have learned from the problem of the consumption fund have been penetrating. In recent years, we have literally tried the road of "filling up the pit" by the method of "leaving it low but letting it rise spirally." But the "pit" remains unfilled. Despite the fact that in general we recognized the extreme seriousness of inflation in the consumption fund, in concrete acts we adopted many measures prompting the continued inflation of the consumption fund. The cause was that we tried to "fill the pit" without "removing the pinnacle." Each industry and trade went its own way and took the small number of people with high earnings as a reference, and everybody heightened the desire for high income which, in short, was in all respects unrealistic. In order to basically solve the problems of unjust distribution and inflation of the consumption fund, we should consider taking a new line of thought. This is the road of filling the pit on the one hand, removing the pinnacle on the other but taking the latter as the major task. Perfecting the personal income regulatory structure is undoubtedly an important measure to achieving this objective.

Third, it is beneficial to overcome the enterprises' indulgence in short-term acts and to expand reproduction in

the enterprise. Among the enterprises, the general trend is indulging in such short-term acts as giving priority to bonus-granting and welfare work before taking up expanded reproduction. One of the important causes for this is that the principal body, or object, for the salary and wages regulation tax and taxes on bonuses is the enterprise and not the individual staff member or worker. How much tax is paid by the enterprise has no direct connection with the actual income of the staff members and workers. Meanwhile, under the pressure of a small number of social constituents in nearby plants and stores that enjoy a high income and the inflation of commodity prices, the managers of enterprises face an enormous force of compulsion from their staff members and workers demanding the granting of larger bonuses, while few people will have the stamina to consider the enterprise's development. If a change is made to collect the income tax from the individual person and is supplemented by levying an adequate collective consumption tax, then despite more and larger bonuses being paid by the enterprise there will be only a limited increase in the actual income of the staff members and workers in comparison with other social constituent members. If funds employed in expanded reproduction are exempted from taxation, then this will be to the long-term interests of the staff workers and members. Thinking of their long-term interests, the staff members and workers themselves will of their own accord employ this portion of funds to expand the enterprise's reproduction.

### III

According to the current actual conditions in our country, in the next several years the principal jobs to be done in establishing and perfecting the personal income regulatory structure should comprise the following: Enforce a personal income tax system which has a low collection starting point and is highly cumulative, speedily setting up such coordinating tax forms as property tax and so forth, and strengthening the all-round registration of personal incomes and tax collection work.

First, a personal income tax with a low starting collection point and high cumulative nature should be enforced, and the existing personal income regulatory tax, salaries and wages, regulatory and bonus tax should be reformed. There should be four major points: First, unify the tax collection principal body; abolish the salary and wage regulatory tax and bonus tax collected from the enterprises; and categorize the individuals possessing the tax paying obligation. Second, lower the collection starting point of the personal income tax, making the tax collection part reach 80 percent or thereabouts, and also make the great majority of citizens earn an income directly shouldering the obligation of paying taxes, thus helping invigorate the citizens' understanding in this connection. Third, reduce the grade differences in the personal income tax rate, hiking the tax rates and putting the highest tax rate at 80 percent and above. Fourth, change

the tax collection timing; income of an ordinary nature should be taxed monthly while income of an extraordinary nature should be taxed yearly.

Second, starting as soon as possible, collect such supplementary and coordinating tax categories as property tax, gift and endowment tax, consumption tax and so forth. At the same time, in order to prevent such phenomena as certain units evading taxes by turning a portion of the personal income into collective welfare funds and using them again on the individual staff members and workers and also for the purposes of encouraging the enterprises to devote more funds to accumulate and continuously expand reproduction, consideration should be given to collecting from the enterprises a collective consumption tax on the enterprise's nonproductive construction and collective fringe benefits.

Third, institute a rigid system for reporting, registering, and checking personal incomes, greatly strengthen the tax collection and administrative work, and heavily punish acts of tax evasion and non payment of taxes. The institution of a rigid system of reporting, registering and examining personal incomes so as to truly reflect the conditions of the citizens' incomes forms the foundation and basis for the state to carry out a rational and effective regulation of the incomes of the constituent members of society and is also an important measure for society to supervise the receipts and expenses of its constituent members and to prevent corruption, bribing and appropriating various kinds of irrational receipts. If necessary, we should publicly reveal the conditions of income, expenses and payment of taxes of the officials holding important and responsible posts, and entrepreneurs and of those earning high income. This will help in strengthening social supervision. In strengthening the personal income collection and administration work, it is necessary first of all to strengthen the self-construction of the tax departments at various levels and strengthen the control and supervision over them. It is also necessary to fill, supplement and strengthen tax collection and administration; improve and raise the political quality, business quality and concept of law execution and law abidance of the taxation personnel; and earnestly change the present unsuitable conditions of the taxation force that is weak in strength, low in quality, and generally not adapted to the demands of developing the commodity economy. At the start of enforcing the collection of the personal income tax, property tax, gift and endowment tax, and inheritance tax, those evading taxes and found guilty of non-payment of taxes should be severely punished so as to make a good start in the collection and administration work of the personal income tax after the reform. The fines should be heavier than the ordinary fines against those who have cheated in reporting or made untrue reports. In serious cases such as resisting the payment of taxes, the culprits should be criminally prosecuted.

As for taxation departments and those responsible for tax collection work being careless in their duties and failing to conduct tax collection, aside from requiring



that the collections be duly drafted, the responsibilities of those concerned for the errors should be investigated; those found guilty of willfully breaching the law or doing acts for retaliation purposes should be subjected to severe punishment. Citizens who have reported on other people's tax evasion acts or on the law-breaking activities of the tax collectors should be given suitable rewards proportionate to the amounts of irregularities reported; while in the case of those knowing of the irregularities but failing to report them, appropriate punishment should be meted out.

Establishing and perfecting the personal income regulatory structure is a delicate and complex task. Not only does it have a large amount of work itself but it also must work in close cooperation with other aspects of reform, and it cannot carry out its work aloof and without regard for others. In particular, it must be in close cooperation with the reform of the distribution system and readjustment of the salaries and wages of the staff members and workers, coinciding with them at the same pace. Lowering the starting point in collection of the income tax and raising the cumulative rate should be carried out in such a way that the great majority of tax payers will not suffer from a post-tax reduction in income; on the contrary, if possible, their income should be increased. Hence, this type of reform cannot be done in haste but must be attended to with great care and due consideration, and must be subjected to various factors including the economic ability to bear the psychological response and so forth on the part of the state, the society, and the public. Nevertheless, this reform must be made. The earlier, the greater the initiative; if dragged on too long, it will become increasingly passive.

**'Two-Tier' Contracting of Enterprises**  
*HK0411100188 Beijing JINGJI GUANLI*  
*in Chinese No 8, 1988 pp 26-29, 56*

[Article by Li Shu 2621 2885, edited by Pan Shuicheng 3382 6615 3397: "The Concept of 'Two-Tier' Contracting of Enterprises—Also a Talk on the Development of the Contracting System and on the Transformation of the Pattern of Enterprises Under the System of Ownership by the Whole People"]

[Text] In Jilin Province, the system of contracting of enterprises has been in force for 5 years and has achieved obvious results and collected many experiences, but a number of new contradictions and problems have been revealed. At present, the development of contracting has reached a pivotal stage. The contracting system has evolved from simple internal contracting and external contracting to the transformation of the enterprise system, and reform in the three phases of "separation of the two powers," "financial relations," and the "status of the three parties" will achieve concrete progress. If a breakthrough is made on these stages, contracting can enter a clear road and open up a new path for the improvement of the enterprise management mechanism. On the other hand, if there is a stalling on these stages and a situation

of stalemate lasts for a prolonged period, then enterprise reform will fall into difficulties and, at worst, there may be a return to the old road. Thus, the eight-character guideline of "coordinating, perfecting, deepening, and developing" produced by the central authorities this year is extremely timely.

An examination of contracting from the structural and mechanical standpoint reveals the current difficulties to be as follows:

- The confusion in the degree of separation of the two powers breeds the danger of increasing administrative intervention. Through agreements or contracts, government departments' abilities for administrative intervention and restriction of the ownership right of the enterprises are weakened. This is the function of the contracting system and is a correct direction that must be firmly insisted upon. But the nonstandardized form of contracting has brought a random character into operation. For example, departments in charge of letting out contracts to the enterprises demand not only such operational targets as increasing the value of assets and delivery of profits and taxes, but also certain complex management targets, attempting to use a "target structure" to manifest "all-round contracting," and, furthermore, fixing it by legal means. This results in the renewed binding of the operator's hands and feet. In the selection of the operators, there are also such vexing problems as the departments in charge "already having internally fixed the personnel to be selected" or "basically rejecting any competitors." The factors augmenting the dangers of the old structure naturally include the customary adherence to the old system, but consist mainly of confusion in the degree of separation of the two powers. In weakening the ownership right, to what extent this should go and what restrictive powers the departments should retain over the enterprises are still problems that are not clarified. This is precisely what makes the development of contracting proceed in different directions and what enables the customary force of the old structure to strengthen the impediments to the "weakening" processes mentioned above.
- The vague state of financial relations leads to the enterprises' actions not being at all rational. With contracting being competitive and operators having to deposit funds as security, the restrictions over operators seem to have been augmented. But this plays no role at all in the restrictions on the enterprises' property. In the system of ownership by the whole people, the kind of structure which, after all, exists internally in the property relations between the state as the owner and the "operator" of the enterprise, is not fixed in the contracting. The enterprises' assets being owned by the state, when business operation is at a loss, or even fails, there is no way of squaring the account between the owner and the "operator." Although it is specified that an enterprise

should make good its losses, its own self-retained funds are actually hardly sufficient for compensation purposes. This situation of the enterprise being responsible for profits but not for losses makes the enterprise lack an effective response to the risks and perils of a commodity economy. In short, "an innate balancing mechanism" for rectifying the enterprise's actions is lacking. Such short-term actions of enterprises as seeking maximum salaries, wages, and bonuses, being eager to make investments, raising prices at random, and even such irregular practices as manufacturing shoddy products, using substandard products as standard products, substituting fake products for real products, and so forth can hardly be basically eliminated. Basically speaking, these are by no means good market practices.

- Confusion in tri-party relations has made management difficult. Under the present method of the operator being selected and appointed by the state, an obvious problem is found in contracting: That is, the problem of the dual status of the party giving out the contract, the party taking up the contract, and the staff members and workers. The government department, in its capacity as the party granting the contract, is both the representative of the owner and the administrative controller. Under such conditions there is a dislocation of the theory and practice of contracting in the "separation of the two powers." The government department has two faces: Acting as the owner, the government department is concerned with the earnings from the assets; in its capacity as controller, the government department takes a hand in interfering in the content of the contractor's business and form of operation. This makes it difficult to fully avoid the intervention becoming regular, although the agreement usually mentions that "occasional intervention" is "permissible." Seen from the side of the contractor, he is the owner's selected and appointed operator and is the operating trustee selected by the whole body of staff members and workers. But under certain conditions, the state's criteria for selecting the operator are not entirely identical with the criteria of the staff members and workers for selecting their operating trustee, and herein a contradiction is created between the state and the staff members and workers, and at times such a contradiction may be greatly expanded.

The causes of the contradiction are not all man-made. Among them there may be a problem concerning the contracting method itself. Thus, the staff members and workers, being the producers, and in their capacity as citizens of the country, find themselves in the position of masters of the house, but in reality they are, after all, employees of the contractors. This makes the characteristic of democratic management merely one in form and in turn affects their enthusiasm. This confusion in the relations between the principal bodies of the three parties, and the mere formalities of the enterprise being a legal person and the staff members and workers being the

masters, are the basic causes of the current situation of the strengthening of administrative intervention in the contracting of enterprises, the "department's ideas being supreme" in the selection of the operators, the rights and benefits of the operators not having the consent of the staff members and workers, and democratic management not being actually enforced. The solution of these problems has a direct bearing on the ultimate destiny and future of the contracting system.

The various kinds of difficulties confronting the development of the contracting system demand of us a scientific and realistic explanation and interpretation of the division of the two powers so as to make decisions that are harmonious with reality in determining the target and pattern for the reform of the enterprises under the system of ownership by the whole people. This will push forward the rationalization of the contracting structure.

1. There must be "consistency" between the contracting system and the target and pattern for the reform of the enterprises, and this should be the starting point in considering the development of the contracting system. Construction of the target and pattern for the reform of the enterprises must insist on two minimal conditions: 1) We must insist on taking the public ownership system as the principal body. 2) They must be acceptable to the existing progress and environment of the reform. Hence, only a target and pattern which call for development in stages can be meaningful. On this basis, from now on, in the reform of the enterprises the enterprise organizational structure that is formed can only be a pluralistic one. For example, the small number of large enterprises with a bearing on the national economy and the livelihood of the people can remain "state-owned and state-run" and become enterprises in which the decision-making power has been extended; enterprises formed through combination or merging, raising of funds, or share participation can form joint-stock companies; and small enterprises can be auctioned to collectives or individuals and become collective, joint-stock, or private enterprises. All these lines of thought are conceivable. Will it be possible to utilize this contractual management form of contracting which lies between direct management and indirect management and to display its special features of having a strong pulling force and the functions of "relying on the old structure and effecting the growth of a new structure" to push forward the transition of the many competitive enterprises which have profit-making as the objective to the target and pattern of enterprises which are "relatively independent," "autonomously run," and "solely responsible for their own profits and losses"? This is the first and foremost problem in the study of the contracting system. An answer in the affirmative has already been obtained in actual practice.

2. There must be an intensive understanding of the essential nature of the division of the two powers in contracting so as to make possible planning and operation of a reformative significance in improving the contracting

**system.** The purpose of the division of the two powers is to enable enterprises, in the course of commodity transactions, to become entities which possess independent status and interests and which can realize personified management. The old road of transforming from public ownership to private ownership cannot be taken; but, starting from reality, we can fully learn from the rational internal nucleus of the "separation of the two powers" in the private ownership economy to enter a different road of separation of the two powers.

In reality, in enterprises under the system of ownership by the whole people, separation of the two powers is already in progress. In enterprises under the system of ownership by the whole people, the means of production belong to the whole people and the representative of the "whole people" can only be the state. But the state cannot give the means of production to society for operation and turn itself into a "trust." What it can do is give over the enterprises, separately in categories, to the localities' and departments' possession and use. With the localities and departments holding in their hands the enterprises' personnel, property, production, and supply and marketing, "possession" of this kind has already lost the meaning of being "by the whole people." But the "separation" here is carried out within the internal levels of the state and between the central government and the localities, and does not attract sufficiently great attention from people. The reform has now speeded up this type of "separation"; meanwhile the contracting system has accorded this "separation" a rapid development in quality. Possession of the means of production by the departments and regions has been shifted to possession and use by the enterprises. With the development of amalgamation and merging of enterprises and the enterprises beginning to hold, independently of the right of operation, the right of disposal and the ownership right over a portion of the assets, a new kind of property relationship is generated between the state and the enterprises, demanding that the enterprises be responsible for both profits and losses. At this juncture, people begin to ponder: What quality, after all, does this "operation right," which has been "shifted downward," possess? Regretfully, here, actual practice has gone ahead of theory. At a time when we ourselves have not yet fully understood the essence of the separation of the two powers at two different levels, the situation of "separation of the two powers" has already taken shape. We cannot but turn back to understand anew and study what form to adopt in undertaking the "clarification" of this type of "property relationship" between the state and the enterprises. This is precisely the position we are in at the moment. To clearly understand the property relationship, first of all we meet with the problem of the "degree of separation of the two powers." From the standpoint of quality regulation, weakening the restriction of ownership right over an enterprise means weakening and separating to the point of enabling the enterprise to become an independent commodity producer and operator and to realize personified management; from the standpoint of quantitative specification, it is tantamount

to demanding that the state, in its capacity as owner of the assets, retains only the ultimate or end ownership right and that by means of law and formulated policies the state's assets be given for use to whoever is capable of being responsible for turning over the greatest benefits. The enterprise, under the preconditions of ensuring the integrity and value-increment of the assets and making the specified delivery benefits from the assets, can wholly follow market signals to run the business autonomously and is solely responsible for its own profits and losses. The state will no longer intervene in the enterprise, while the latter will no longer rely on the state. Obviously "separation" at this level enables the enterprise not only to possess the assets but also to have the right to dispose of the earnings and to become in reality the owner of the right of possession of the assets and to obtain the ownership right in the economic sense. On such a basis, through the selection of the operator by competition, the enterprise is given to the entrepreneur to run.

**3. Changing the current "one-tier type" contracting to "two-tier type" contracting and away from the contract structure, pushing the enterprise into being tied to the target and pattern of the reform.** "One-tier type" contracting refers to the state department in charge, or the contract-granting organization formed with the department in charge as the head, directly appointing the operator of the enterprise. Such a method bypasses the property relationship between the state and the enterprise, and the contractor acts directly as the representative of the legal entity of the enterprise, thus creating a confusion regarding the status of the operator and the staff members and workers. Moreover, since the operator is selected by the state, if the enterprise incurs losses because of the selection of the wrong operator, who after all should be responsible? And who should be responsible for the profits or losses of the enterprise's property? There is no way to clarify these problems. The method of solution is to change the "one-tier type" contracting to a "two-tier type" contracting: The first tier is assets contracting; that is, the state, acting as the owner of the assets of the whole people, contracts, in the form of a lease, assets of the whole people to the enterprise by signing an assets-contracting agreement. The state demands that the enterprise ensures the integrity and value-increment of the assets and pays on schedule a fixed fee for the possession and use of the assets. (In principle the possession and use fee should be the product of the amount of the enterprise's assets multiplied by the average profit rate. In current operations, it can be treated as profits for upward delivery after separation of taxes and profits.) Contracting is contracting the possession payment of fee for use of the assets; the enterprise, after having paid the taxes and fee, takes on the distribution of the surplus. This makes the separation of the two powers reach the "degree" of satisfying the demands of the commodity economy. This type of enterprise contracting, similar to the peasant's contracting for land, essentially realizes the separation of the ultimate or end ownership right from the economic

ownership right and lays the foundation for the enterprise being solely responsible for its own profits and losses. Because the principal body possessing this portion of the assets of the enterprise is the whole body of staff members and workers, this tier of contracting is the real whole-staff contracting, with assets as the contents. The second tier is contracting by the operator. Despite the fact that the enterprise "contracts" the state's assets into its own possession, makes itself a legal entity, and makes the staff members and workers the principal possessing body, it is not possible to commit the whole staff to the operation. It is still necessary to create a personified representative of the enterprise's operation. Hence, in the second tier the enterprise grants the contracting. It takes the value-increment target of the contracted assets and the utilization fee of the assets as the basis and fixes the "objectives" for the operator's operation, namely, the value-increment of the assets and the gross amount of profits. Using this as the basis, it invites tenders and selects the operator. In the enforcement of the "two-tier contracting", the operator is selected by the enterprise and the whole body of staff members and workers and, in the economic sense, the staff members and workers naturally are the masters of the enterprise; and since the operator has the trust of the whole body of staff members and workers, his rights and benefits are naturally recognized by the staff members and workers. In the enterprise he sits in the central position and plays a central role. By so doing the adverse psychology of the "contractor contracting the enterprise," and the "masters being contracted," and so forth is avoided, the property relationship is made clear, and the relations of the three parties are put in order. Hence it is the ideal contracting structure.

The current problem is, in assets contracting, who represents the enterprise in contracting from the state? In the operator's contracting, who represents the enterprise in granting the contracting? In other words, who is the personified representative of the economic ownership right of the enterprise? When we come to consider the "change" in the leadership structure of an existing enterprise, it is necessary in the contracting operations to proceed by reversing the logical order of the "two-tier" system: After the state has designated the "objectives" or target of the assets contracting, a tender invitation committee is formed, with the employees' representatives congress acting as the head and absorbing entrepreneurs relevant to the enterprise's interests and socioeconomic specialists into the committee as its constituent members. The committee will, by public tender, select an operator who can represent the entire body of staff members and workers in accepting the "objectives" or target set by the state, thus enforcing contracting by the operator. But the operator emerging from this tier is only the operating trustee of the "whole staff," and not a legal entity representative. On this basis, the operating trustee selected by the staff members and workers then proceeds with asset contracting from the state. By this time, the enterprise has possession of the assets, obtains the economic ownership right, and becomes an enterprise legal

entity. Only then can the operating trustee selected by the principal body of the possessor of the assets be appointed as the plant head (manager) and become the representative of the legal entity. It can thus be seen that in the enterprise, the plant head is the personified representative of the economic ownership right and also concretely the operator, and this is thus "unification of the two powers." The employee representatives congress, in its capacity as a democratic management organ, has functions similar to those of a supervisory committee, restricting and supervising the manager.

For the separation of the two powers to reach the degree of the owners being responsible only for the assets' value-increment and benefits, we cannot rely on people's subjective understanding and the quality of those in charge. Rather, it is necessary to change the current dual status of the state as the party granting the contracts. Naturally, now, it is worthwhile to try out the line of thought of separating assets management and administrative control and establishing a company for the operation or management of assets. Starting from reality, the form that can be adopted is: Establish a contract-granting committee comprising the relevant departments, such as finance, bureau in charge, economic specialists, and banks; do a good job in assessing and evaluating the assets of the enterprises; grant the contracts one by one when and as they reach maturity; and gradually effect a transition to the formation of an assets management corporation. Here, it is necessary to explain: Regardless of whatever organization grants the contracts, the contracting should be limited to the assets. This is to settle the problem of "to whom this portion of the assets is transferred," not selecting the operator but selecting the "operating group." The contract-granting party (the state), as owner of the assets, can, at the time of the tender invitation, give priority in contracting for operation to the original enterprise. If the original enterprise cannot accept the "objectives" or target for the assets laid down by the contract-granting party, an open invitation to the public to submit tenders may be issued, and the assets may be given to other enterprises to manage in compliance with the principle of making the best allocation of assets. At present the instances of mutual contracting, leasing, share-participating, merging, and selling among enterprises that actually occur constitute the actual practice of "re-contracting" or "transferring" of assets comprehended in this sense, and such practices have thus formed a market for the transfer of property rights. Enterprises already in possession of the decision-making power regarding the strategy of the management and operation of assets which seek to obtain benefits from the possession of assets and which have aspirations for expansion are "patrons" of this kind of market. To correspond with this, in order to encourage and stimulate the enterprises, the "double linking" system must be practiced, that is, the interests of the operator and the enterprise's staff members and workers must be linked not only with the profits and taxes realized and delivered, but also with the amount, large or small, of assets (value stature) possessed. At the same

time, reliance must be placed on the motive of maximizing the income of the staff members and workers, on the one hand adding to the aspirations of the enterprise to invest more and accumulate more, and on the other hand augmenting its wish to expand and to possess more assets. In this context, in the "two-tier type" of contracting, contracting by the operators yields superior operators on the job and assets contracting improves the allocation of assets, and in this way contracting and readjustment of the industrial structure are joined together in an organic manner.

**4. Building up the enterprise's property compensation capacity and the procedure for it and making the enterprise change from limited responsibility for profits and losses to full responsibility for its own profits and losses. This is of key importance for the success or failure of contracting.**

By means of the "two-tier type" of contracting, in fact a structural pattern is formed of enterprises under the system of ownership by the whole people embracing such features as "ownership by the state," "possession by the enterprise," and "being run by entrepreneurs." This smooths out the property relations and the relations between the three parties, and the enterprises obtain the right of economic ownership. But this is still not the objective. The objective is to make the enterprises truly responsible for their own profits and losses. Only when the enterprises have formed the mechanism for being solely responsible for their own profits and losses can a change in the enterprise mechanism be brought about, making them become the principal bodies of the market, and only then can the enterprises make correct responses to the signals of macroeconomic management. This is a "chain" or bond of the utmost importance in the reform of the enterprises. In the next 2 to 3 years, if the contracting system cannot score a breakthrough in this regard, then contracting will lose its meaning. When determining the meaning of profits and losses as a basis for fixing the occupation and use fees in contracting, not only must bearing profits and losses in benefits be considered, but also bearing profits and losses in property, and the enterprise's capacity for property compensation, and a procedure for it, must be built up. For the sake of balancing risks in operation, in enforcing the contracting system, risk reserve funds should be created steadily. The sources of risk reserve funds may be on the one hand the profit-retention fund of the enterprise, and on the other hand the security funds of the staff members and workers in contracting. In this way, when the enterprise meets with risks in operation, first the risk reserve fund should be drawn upon to make compensation; next comes the turn of the bonus, incentive, and welfare funds, and next the production development fund. Should all the above be insufficient, then the enterprise should use a portion of the assets it owns to compensate the owners, or declare itself as being in indebtedness. In the event the enterprise again makes use of that portion of its assets which it no longer owns for production, it will have to pay anew the charges for possessing and

using it. If the assets actually possessed by the enterprise itself are still not sufficient to pay off the indebtedness, then the enterprise must declare itself bankrupt. Thus, through the entire course of production and management developing fluctuations to the stage of bankruptcy, the mechanism for loss-bearing is formed. Bankruptcy implies the enterprise's loss of the ownership right in the possession of the assets; the staff members are no longer the principal possessors of the assets to undertake production and business activities. They can only go to society to await employment. In this way, enforcement of the bankruptcy law will have a quantified foundation for transition. Formation of an integrated stimulant mechanism from interest and property to the power or right of employment will emerge the destiny of the staff members and workers and operators with the destiny of the state-owned assets into a single body. This embodies a deep-going significance in pushing forward the reform of the entire structure.

#### **Reform of Investment Structure**

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[Article by Zheng Xiujian 6774 0208 1696, edited by An Luming 1344 6424 2494: "An Analysis of the Reform of the Investment Structure During Recent Years"]

[Text] The reform of the investment structure is an important link in the reform of the economic structure. Its success or failure determines the pace of development of the entire national economy, the growth of social material wealth, and the development of the socialist market economy. Therefore, we need to summarize and analyze the reform of the investment structure in recent years in the aspects of both theory and practice. We also need to further investigate the possibility of deepening this reform to create a good environment of investment administration and in turn to ensure prosperity in the socialist commodity economy.

#### **I**

It has been more than 9 years since the reform of the investment structure was introduced in China at the end of 1978. During this time span, there has been change in the investment of fixed assets and the investment structure has changed from the model of product economy to that of socialist market economy. The changes are manifested in seven aspects:

(1) Capital for construction, which used to be allocated by the central government, is increasingly administered by the central or local government depending on what is appropriate. Since the founding of the PRC, the central government has been responsible for the unified control over revenues and expenditures for the funds for capital construction. This means that funds for capital construction come from the re-distribution of national income by the central treasury, i.e., enterprises turn over all their profits to the central treasury and all the funds needed

for the operation and expansion of the enterprises are supplied by the treasury. Since the 3d Plenary Session of the 11th party Central Committee, and with the deepening development of the economic and the socialist construction, the practice of monopoly by the central government over the revenues and expenditures for capital construction funds has begun to change. With the reform of the finance system, revenues and expenditures became decentralized. Funds for construction are allocated and administered by the central and local governments respectively. Their utilization is now closer to the domain of micro-economics. In this way the practical needs of different zones of economic development and economic main bodies can be better addressed.

(2) Funds for the investment on capital construction which used to be allocated by department or region are now being changed to allocation by trade or by economic groups. For a long time, funds for investment on capital construction were allocated by department or region. Under the conditions of the planned commodity economy many shortcomings have been exposed. For example, the channels for the interflow of funds and the internal links of economic development have been segregated to a certain extent; there is poor coordination in the development of the economic main bodies; economic disparities among and demands for interest by departments and regions have sharpened comparison and competition, leading to a more acute imbalance in the proportion of the national economy. Since 1978, the reform of the entire economic structure, which hinged on the reform of the rural economic system, had direct impact on the rigid investment distribution system. The old system gained rebirth from the dilemma of "eating from the same big pot" in investment and "spending money at no risks" caused by segregated allocation. There began to be investment on a small number of large-scale joint industrial enterprises and business conglomerates.

(3) Funds for investment on capital construction which used to come from government allocation began to come from bank loans. Before 1979, investment on capital construction had always been supplied by the government. With the change in the development of economic life, this method made enterprises more dependent on state investment. Therefore it is an objective demand of the law of economic development to change from government allocation of funds for investment on capital construction to bank loans for it and implement credit administration. Starting from the beginning of 1979, the method of bank loans was experimented with in the investment on capital construction. The change from allocation to loans shows that the credit levers and financial business means are being experimented in investment to build a new system of investment administration with effective control of the scope of investment, guide the direction of investment, and raise in investment returns.

(4) The funds for capital construction used to come from one channel. Now they come from multiple channels.

Because of the development of the socialist planned economy, state investment as the only source of investment on capital construction began to be replaced by investment from multiple channels. This is because there has been significant change in the economic sectors and structure in China. State ownership, collective ownership, and individual ownership form different sources of investment. Various kinds of horizontal economic joint operations, stock holding enterprises, group enterprises, and Chinese-foreign joint ventures have become different investment bodies. Investment on one construction item can come from multiple sources and investment in the entire society is diversified. This shows the following: First, state investment alone is not sufficient for the socialization of mass production and modernized construction. Effective measures must be taken to mobilize and pool all kinds of funds in order to further expand the sources of investment. Second, when trying to control the scope of investment, it is not enough just to control state investment. A question that merits attention is how to use state investment to guide the whole society's investment behavior so that the latter effectively complements the former.

(5) Regulation and control of investment behavior by administrative measures is changing to that by economic and legal measures combined. A typical way of regulation and control of the total scope of fixed assets investment by administrative measures in the product economy is to define the direction, structure, and scope of investment with directive planning. Practice has proved that to regulate and control investment behavior with administrative order can no longer meet the objective demand of modern economic development. This is shown in the following: First, in the reform of the investment structure in recent years, economic and legal measures have begun to play a role in regulation and control of investment. Examples of such measures are tax exemption or reduction and tax rates increase. Second, the levers of interest rates have initially played a role too. According to state economic development strategy, banks are to provide for items of undersupplied products and items that promise economic results loans with interest paid in the form of a deducted rate or loans at a favored interest rate. Third, the contractual system of the economy is developed. For example, legal criteria began to be employed in economic disputes in capital construction, and investment behavior is protected and restrained by legal measures.

(6) Investment decisions which were made subjectively and based on assumptions began to be made scientifically and democratically. Investment decisions are key links that determine investment results. In recent years, with the reform of the investment structure, decisions on investment items have become more scientific and democratic. Feasibility studies have become a required procedure in construction projects and an important economic and technological reference for decision-making departments. In addition, the investment consultation

business, e.g., China International Engineering Consultant Company, and China Investment Consultant Company, began to develop and enter the domain of investment. Economic and technological consultation on construction projects makes decisions more scientific and process of decision more democratic.

(7) Investment management which was enclosed has become open and competitive. Investment management directly affects the rational use and results of each investment. Investment management had been neglected for many years and the use of investment capital had been in a state of low results and high consumption. The reform in recent years has initially changed this phenomenon and an open and competitive atmosphere is gradually taking shape in capital construction. This is shown in the following aspects.

- a. In engineering construction projects barriers between departments and regions have disappeared with the invitation to the public to submit bids. The best constructors and managers are selected through competition.
- b. The management behavior of main bodies of investment is strengthened with the establishment of various forms of the contract responsibility system.
- c. Funds for long-term construction are raised and the best investment partners are sought through the establishment of a funds market.
- d. Some construction products have begun to be commodified.
- e. We try to create a good investment environment to attract foreign investment. A number of China-foreign joint ventures and contractual joint ventures, and wholly foreign-owned items have emerged.

## II

The above changes demonstrate an abandonment of the old and outdated economic development model in favor of a vigorous and active one in the investment structure. It also shows that the reform of the investment structure is still at an initial stage. The coexistence of both new and old systems makes the deepening of the investment reform more difficult. Although the recent reform of the investment structure has tried to address this problem, some fundamental problems and contradictions have not been resolved yet.

The highlights of the recent reform of the investment structure are: To establish a capital construction funds system and entrust the construction bank with the funds; to establish a number of specialized investment companies which use the capital construction funds and conduct investment activities; and to place the specialized investment companies under the authority of the planning department. These reform measures, especially the

establishment of a capital construction funds system, can initially turn around the phenomenon of the need for more funds than available for capital construction. They help to stabilize the source of funds for key national or local construction projects and raise their economic results. However, they have not been able to resolve the problems of the distribution system and 'eating from the same big pot' in investment. Meanwhile, they may produce new contradictions that become the target of further reform. The reasons are as follows:

(1) When the responsibilities in the course of the use of capital construction funds are not clear, an investment management mechanism cannot really be established. For example, it is difficult to handle the relationship between the construction bank, which specializes in managing state funds for long-term investment, and the specialized investment company. The opinion tends to be that it is a loan relationship between the specialized investment company and the construction bank, i.e. the latter use the capital construction funds to issue loans to the former, for which both parties sign a contract. However, this creates a problem. According to the general economic principle, to manage funds well, the construction bank must conduct a feasibility study on all aspects, such as direction of use of funds and investment results before issuing a loan to an investment company. If not, the construction bank manages capital construction funds in name only and is in effect a cashier. Similarly, before investing in a project or enterprise, an investment company must conduct a feasibility study and economic and technological assessment. In this way its work overlaps with that of the bank and disputes, and confusion over responsibilities will follow.

Besides, in terms of management and use of funds the construction bank itself has the function of managing the funds. If it transfers the capital construction funds to the investment company and lets the latter use them on projects, it means adding a new layer of management and adding management organizations, personnel and costs. We believe that the establishment of specialized investment companies does not have any concrete meaning for the deepening reform of the investment structure. It only centralizes the investment authority which was spread over the departments in charge in the past on a few investment companies. Since investment companies represent the investment interests of different trades, they will compete for investment and projects in the development of their trades, and competition for investment among departments in charge will be replaced by that among specialized investment companies. In the end the planning departments will have to distribute investment according to trade again.

(2) It is difficult to form a good overall mechanism to regulate and control fixed assets investment. The priorities are not clearly defined in the recent reform of the investment system. Although there is an intention to set up a mechanism to regulate and control overall investment management, an important economic factor has



been neglected, namely, to use the bank credit mechanism to conduct investment management through the market to introduce the law of value to the investment domain. As a result, while the goals of the investment reform are clear, they cannot be realized and only minor changes are possible on the surface of the investment reform. An investment management mechanism that flexibly regulates and controls the total investment in society cannot possibly be formed by setting up a few investment companies and changing the channels of distribution of investment only.

### III

To overcome the difficulties in the reform of the investment structure and fundamentally set up an investment management system, we must deepen reform and correctly establish a central line for it. Based on the state of our investment structure at present, the central line for reform is: To respond to the needs of the development of the socialist planned commodity economy by thoroughly changing the practice of having too many planning departments which take part in construction investment in too many details, changing the system of investment distribution to that of investment management, and setting up an investment operation mechanism with power, responsibility, and interest combined to raise investment results. Accordingly, a realistic road for the deepening of the reform of the investment structure is as follows:

(1) To strengthen the banking function of long-term investment credit banks. In China, construction banks are banks that manage long-term investment credits. To strengthen the banking functions of construction banks is an important step in the deepening reform of the investment structure. This is because:

a. The construction bank has been administering investment in capital construction in state budgets for more than 30 years. The main activity is to manage long- and medium-term investment credit.

b. The construction bank has been a long-standing credit intermediary in the domain of investment. They can intervene in the total amount of investment in society through collection and distribution of funds and possess and provide a great deal of economic information on investment and in turn guide the investment behavior of various economic main bodies.

How can we strengthen the banking functions of the construction bank?

a. Fully expand the construction bank's autonomy over funds management. As a financial economic entity, the construction bank should have a certain autonomy over the use of funds. For business in debt, this autonomy is manifested in the form of the autonomy to open up new business and to compete with other specialized banks. In the business of assets it is manifested in the form of

autonomy over loans. Proposed projects that apply for loans must be assessed by the construction bank. The bank can refuse to provide loans for projects that do not promise economic, technological, and social results. Besides, the construction bank should have the autonomy to make full use of the loan funds it has absorbed and provide loans to the most suitable applicants.

b. The construction bank should be in charge of the management, allocation, and use of capital construction funds. Specialized investment companies should be dismissed. Since they have been set up already, we might as well let them try for another period of time. They can be placed under the authority of the construction bank and become an economic entity under it. This will help in the coordinated arrangement of capital construction funds, make decisionmaking on projects more scientific and the work more efficient, and ensure the rational and effective use of capital construction funds. On the one hand, the construction bank can use credit means to make full use of the pooling ability of capital construction funds and actively absorb unexpected funds, and further consolidate and develop long-term investment credit. On the other hand, it can promote the development of investment companies into economic entities that can truly assume sole responsibility over their profits and losses, keep separate accounts, and have management autonomy.

c. As the largest scale financial organization that manages long-term state investment credit business, the construction bank should be placed under the state council. An investment system with compensation with Chinese characteristics should be established in the form of purchase of shares, investment, provision of loans, etc.

(2) Strengthen the planning and administrative functions of state planning departments. For a long time, in investment administration the state planning departments were stuck in the business of allocation of funds, allocation of material resources, listing plans, and approving projects. Their function of overall control and regulation of investment behavior has been seriously weakened. At present, major measures to strengthen the investment administration function of planning departments are :

a. To change the administrative function. The focus of the routine work of planning departments should be to formulate development plans for long- and medium-term investment, guide investment behavior, and correct investment directions, so that the investment of the entire society can be integrated with tapping of resources to produce the best results.

b. To delegate decisionmaking power on investment on projects. Various investment main bodies (including specialized investment companies) should have autonomy to decide which projects to approve and which not to, under the guidance of investment planning. Banks



and financial organizations should provide loans to the most suitable applicants. The planning departments should no longer specify the projects in concrete terms and sources of funds for them. They provide guidance only in investment direction and policy.

c. To truly strengthen the balanced study of total investment supply and demand, formulate active and feasible methods, and issue overall investment directives for the investment of the entire society and control and regulate the total amount and overall direction.

(3) Implement the system of ownership by the legal entity in investment. It is a modern enterprise system that gives the legal entity ownership of investment and property and management power. This system has two meanings. First, investment decision rests with the legal entity. Assets formed in this way belong to the legal entity. Second, the legal entity has management autonomy over investment. It is characterized by the overlap of investment use, responsibility, benefits, and risks. To establish this system work must be done in the following three aspects.

a. Define investment scope and set the decisionmaking power on investment of each economic level within the defined scope. Based on the present investment domain in China, we can divide the scope into state investment scope, local investment scope, enterprise investment scope, and long-term bank credit investment scope. Decisionmaking power on state investment belongs to the state and such investment should be on major social construction projects and public welfare construction. Decisionmaking power on local investment should belong to the locality and such investment should be on local projects on science, culture, and education. Decisionmaking power on enterprise investment should belong to the enterprise and such investment should be on the expanded reproduction within enterprises. Bank loans are provided to selected projects according to loan principles.

b. The state investment main body should be like a legal entity. A management responsibility system that integrates risks with profits should be set up in state investment. The system of 'eating from the same big pot' in investment should be eradicated. An investment main body that acts like a legal entity must be established to represent the state to invest and in all the assets obtained from investment. This means to manifest the state ownership of fixed assets investment in the concrete form of the main body. Therefore, we suggest that the existing specialized state investment companies represent the state in the possession of investment assets and that the construction bank be entrusted with assets management.

c. To expand the investment autonomy of enterprises. The central link in the deepening of enterprise reform is to change the enterprise management mechanism and invigorate enterprise vitality. Investment autonomy is a

prerequisite for enterprises to change investment direction according to market demand and in turn to regulate production and management structure. When enterprises have become the investment main body of a legal entity, the state will no longer be responsible for the source of capital for enterprise investment nor point out investment directions. In this way, the economic results will naturally be closely related to the existence and development of enterprises and investment behavior at the macro-level will have the ability to discipline itself.

## FINANCE, BANKING

### Taiwanese Investment in Beijing Tops \$100 Million

40060020a Beijing LIAOWANG OVERSEAS EDITION  
in Chinese bx;1No 34, 22 Aug 88 pp 9-10

[Article by Wang Wei 3769 5588: "Taiwanese Investment in Beijing Tops \$100 Million"]

[Text] At present, two factories have been built in Beijing with Taiwanese investment, and another eight are being constructed. The total amount invested in these 10 factories comes to \$160 million, with \$110 million of this coming from Taiwanese investment. In addition, over 20 Taiwan businesses are now engaged in talks.

### The New Plan of Beijing Municipality

Based on regulations promulgated by the State Council for encouraging Taiwanese investment, Beijing Municipality has made further plans recently:

—It revised the methods for Taiwanese investment. It provided unlimited periods for joint ventures and allowed Taiwanese to hold the position of Chairman of the board in joint ventures.

—It has studied implementation plans for real estate management. The Municipal Foreign Economic and Trade Commission, the Land Bureau, the Planning Administrative Bureau and the Housing Administrative Bureau have discussed this matter and are going to set aside a patch of land for Taiwan businesses to engage in real estate transactions in Beijing. Right now, the plan is under discussion.

—It has decided to develop a three square kilometer Zhangjiawan industrial park in Tong County. About 1.5 square kilometers of this park will be primarily for Taiwanese investment. To change such long-standing unfavorable aspects as great numbers of departments, numerous procedures, low work efficiency, and unduly long periods for decision-making, a multi-purpose office building will be built there. Having such functional departments concerned as the Foreign Economic and Trade Commission, the Industry and Commerce Administrative Bureau, the Taxation Bureau, the Commodity Inspection Bureau and the

Bank of China doing their business at the site will solve a series of real problems on the spot. A container transfer station will also be built and goods can be shipped by rail or highway directly to the transfer station from such ports as Tianjin and then on to various enterprises.

The primary reason for choosing Tong County as the site for the industrial park is convenient transportation. The railroad and the highways extend out in all directions, and the Beijing airport is only a half-hour away by car. Also, Tong County is near urban areas, power and communication systems are developed and there exists a definite industrial foundation. A feasibility study on developing the park is now being conducted.

#### **Raise Work Efficiency**

After promulgation of the State Council regulations, Beijing Municipality stepped up its handling of problems relating to Taiwanese investment and raised work efficiency. For example: Mr Jiang, vice-chairman of the board of a Taiwanese funded enterprise in Chaoyang District, saw the 22 articles of regulations promulgated by the State Council and immediately requested that he be made chairman of the board and that the joint venture period of 18 years originally agreed upon be changed to an unlimited period. The reason was that his proportion of the investment was high. After the Municipal Economic and Trade Commission received the revised contract and the supplemental agreement of the rules signed by the Foreign Economic and Trade Commission of Chaoyang District and the Taiwan business, it only took 3 days to approve the request. When Mr Jiang received the written notice of approval, he exclaimed happily, "I never thought your work efficiency was so high."

#### **Provide Consultative Service to Taiwan Investors**

Persons in various fields in Beijing attach importance to providing consultative service to Taiwan compatriots who invest in Beijing. At present, the Beijing People's Political Consultative Conference and other units have acted as intermediaries in lining up 28 projects for Taiwan businesses. Letters of agreement have been signed for seven of them.

The Beijing branch of the Chinese Kuomintang Revolutionary Committee advocates helping Taiwan businesses that return to the homeland to find good investment conditions and partners. For example: recently the Yanming Plastics Co, Ltd was set up as a cooperative investment between a Miyun County Parts Factory and Mr Wang, a compatriot from Taiwan. The company invited a Taiwan compatriot, Mr Guan Chengde [7070 2110 1795] who returned to China at the end of 1986 and is currently a member of the Beijing Municipality Kuomintang Revolutionary Committee, to assume the post of General Manager. Mr Guan was engaged in plastics operations in Taiwan for 18 years and is an

expert in the field. This company primarily produces large, inflatable plastic toys like life boats, air mattresses, water beds, etc. Mr Guan estimates that the company will create foreign exchange between \$1.5 to 2 million annually.

A special enterprise has been established in Beijing to provide consultative services to Taiwan compatriots who invest in Beijing—The Beijing Taiwan Compatriot Investment Business Consultative Service Company. It is set up in the Hademen Hotel in Beijing. The purpose of the company is to remedy omissions and deficiencies, and to build up connections for Taiwan compatriots who come to Beijing to invest. The scope of the company's business is: based on the principle of mutual benefits, to provide consultative services to Taiwanese who invest, set up factories, hold trade talks, and open up product exports in Beijing; accept Taiwanese commission, assistance, and cooperation in setting up related economic entities, and conduct matters related to science and technology and cultural exchanges. This company already has established lateral ties with various economic and trade units in Beijing districts, counties and bureaus. At present, it has lined up 1,500 investment items for Taiwan compatriots to choose from. The company will do its best to improve investment conditions, mediate in business channels, and provide partners.

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#### **Ways To Improve Financial Management Discussed**

40060027 Beijing ZHONGGUO JINRONG [CHINA FINANCE] in Chinese No 8, 4 Aug 88 pp 31-33

[Article by Jin Jiandong 6855 1696 2767: "Improve Financial Management, Promote Reform and Open Up"]

[Text] In 1988, financial management faces new and more onerous tasks. According to the gist of Premier Li Peng's government work report and the People's Bank's financial guiding principle of "controlling the gross volume and making structural adjustments," this year's financial management tasks will include: actively adopting measures to explore all possibilities and develop the financial market and further promoting a variety of financial institutions to enliven the financial sector. At the same time, we must strengthen and improve the administration of the financial market and institutions and gradually standardize financial management to promote the healthy development of the financial market and financial institutions.

#### **Further Develop and Perfect Financial Markets**

We must do a good job with the issuance of assorted bonds. The State Council has approved the issuance of 46.5 billion yuan of assorted bonds during 1988. They include 9 billion yuan worth of treasury bonds, 8 billion yuan of bonds for infrastructure, 8 billion yuan for the

state's key construction projects, 8 billion yuan worth of financial bonds, 3.5 billion yuan in key enterprise bonds, and 3 billion yuan in local enterprise bonds. The task will be onerous, especially because infrastructure, the state key construction, and financial bonds are to meet financial needs to guarantee the state's key constructions, and they are an important part of the effort to issue bonds to pay for financial deficits instead of by bank overdrafts as was the practice in the past. All areas should pay special attention and do a good job with the issuance, sales promotion, supervision of transactions, and subscriptions according to the plans made by the headquarters to ensure fulfillment of this task on time and on target.

Among the 9 billion yuan of treasury bonds to be issued in the future, 5.5 billion yuan are intended for sale to the individuals. Instead of maturing in five years as in the past, these bonds will mature in three years, and the annual rate of interest will be 10 percent. These bonds will be the highest yield, the best rated, and the more liquid among all bonds to be issued this year, and the local banks should actively advertise and promote the sale of these bonds.

Financial bonds to be issued this year have improved too. One, they will mature in three years instead of one. From the point of future development, financial bonds should gradually become a tool for the banks to gather long-term funds. This not only will facilitate the banks' effort to manage long-term and short-term funds separately and change the present over-use of short-term funds for long-term loans, but it will also help to stabilize the source of bank funds. Two, the three-year term will carry an annual interest rate of 10 percent, at par with the treasury bonds. Three, the use of these bonds has been broadened to a suitable extent. They can be used as special loan funds for energy, communications, raw materials and other basic industrial facilities and projects which are included in the state plan. This helps to put the special loan funds to optimal use. Four, some well-off and reputable non-bank financial institutions have been authorized to issue some financial bonds. The localities should actively organize the specialized banks and other financial institutions to work on the issuance of the financial bonds according to the administrative methods stipulated by the head office to manage the special loans more effectively.

This year's local enterprise bonds will be used mainly to finance basic industrial installations and projects such as energy, communications, and raw and processed materials under local plans. Localities must limit issuance to a quota set by headquarters and must not exceed the quota.

**We should vigorously set up business to handle negotiable securities transfers.** This year, in addition to further opening up the various negotiable securities exchange markets, the State Council has given permission to set up a nationwide treasury bond exchange market gradually by experimenting in selected areas first. This task will be

spearheaded by the People's Bank and will be joined by the financial ministry and the industrial and commercial administrative departments for better organization and stronger management. Treasury bond transfer experiments may not be undertaken without permission from the headquarters of the People's Bank. The bank should make comprehensive and proper arrangements in launching the business to handle treasury bonds and other negotiable securities transfers. The program should be divided into three separate levels. The first level involves the setting up of securities companies in the provincial capitals, the municipalities, and cities on the planning list. At the second level, the People's Bank may give permission to some trust investment companies which have ample funds and qualified personnel to set up over-the-counter exchange of treasury bonds and other negotiable securities. At the third level, the People's Bank may designate the repositories of some trust investment companies, urban credit cooperatives, and specialized banks as agents for the above institutions to handle the sales and purchases of treasury bonds and other negotiable securities.

**We should further open and perfect the short-term inter-bank loan market.** This year, we want to emphasize the following: one, we want to vigorously develop a inter-bank money market and organically integrate bill exchange, fund clearing (including out-of-town settlement and draft settlement), and interbank loans. Money shortfall encountered in bill exchange or fund clearing should be corrected by interbank loans, not prepaid by the People's Bank. Two, we should actively improve the interbank loan method and reduce as much as possible short-term credit loans and gradually convert interbank loans to note form to cut the risks in these short-term loans. Three, we should further amplify the interbank loan market system and vigorously launch interregional, intersystem fund lending and borrowing activities, and gradually set up several national and regional interbank loan centers and a visible interbank loan market which is open to the whole country. These interbank loan centers should be under the direct leadership of the People's Bank and should be based in the urban centers. Four, we must enhance and improve the way the People's Bank controls the interbank loan market. The bank should set up short-term fund gathering companies and turn to financial institutions nationwide to launch interbank short-term loan and fund gathering activities to circulate funds broadly in accordance with the financial macroeconomic control requirements of the country. In addition, with the permission of the People's Bank, localities may set up experiments to issue short-term fund gathering notes and enterprise stocks and assign credit ratings to enterprises which are issuing bonds.

**Develop Diverse Financial Institutions, Perfect the Financial Institution System.**

**1. We should set up a group of financial intermediaries to serve the financial market on a trial basis.**

*Short-term fund gathering companies.* These can be set up by the People's Bank. At present, we should start in the economically well-developed provinces, autonomous regions, municipalities, and cities on the planning list where there is a substantial volume of interbank loan business and where the better-trained cadres can be found. These companies should mainly handle loan transactions between financial institutions or other financial business. The actual capital fund will be 10 million yuan and can be funded solely by the People's Bank or funded through the stockholding system, but only financial institutions may purchase shares, and the People's Bank must control 51 percent of the stock or more. These fund gathering companies are independent corporations; they are independent accounting units with the right to run their own business and are responsible for their own profits and losses. They are under the People's Bank's administrative jurisdiction, but their fund transactions with the People's Bank are transactions between depositor and lender.

*Securities companies.* In principle, these should also be organized by the People's Bank. They may be set up in the large- and mid-sized cities which are economically developed, have a relatively large volume of securities exchanges, and have a contingent of qualified cadres. They should handle primarily the subscription, exclusive sale, transfer, sale and purchase, underwriting, and redemption of all kinds of negotiable securities as well as provide such services as information, appraisal and certification, registration and ownership transfer, and safekeeping. They can also buy or sell treasury bonds on behalf of the People's Bank to help regulate the securities market, stabilize and keep down the securities exchange prices, and adjust the money supply in the securities market to make the market comply with the requirements of the State's macroeconomic control of the securities market. Securities companies may be funded solely by the People's Bank, or they may be funded through the stockholding or joint-operation systems, with the People's Bank holding the majority stock. The securities companies should keep independent accounting records, have the right to run their own business, and be responsible for their own profits and losses. They are independent corporations under the administrative jurisdiction of the People's Bank, but their fund transactions with the bank are transactions between depositor and lender.

*Credit rating companies.* Their main task is to evaluate and rank the credit history of enterprises which are issuing bonds. They should be set up as non-affiliated, impartial, and authoritative independent corporations. They may be organized by the People's Bank in the large cities where securities companies do a large volume of business and where there are more qualified cadres. Credit rating companies can expand and become national, interregional operations.

**2. Vigorously develop the insurance business.** Besides continuing to vigorously support the business expansion of the People's Insurance Company of China, we should

develop regional insurance companies, rural cooperative insurance organization, and specialized life insurance companies on a trial basis in areas with the proper conditions. These companies should adopt the shareholding system and keep independent accounting records, be responsible for their own profits and losses, and have the right to run their own business and the obligation to pay their own taxes.

**3. Suitably expand the pilot project of setting up enterprise group finance companies.** All enterprise groups in the key trades supported by the state which satisfy the conditions stipulated in the "Provisional Measures For Managing the Enterprise Group Finance Companies" formulated by the People's Bank of China may set up finance companies upon approval by the bank. The finance companies should adopt a shareholding system, and member enterprises of the enterprise group should be the main stock purchasers. Primarily, these companies should handle the fund gathering activities of the members of the enterprise group. They are independent corporations keeping independent accounting records which run their own business and take care of their own profits and losses. Their transactions with the other financial institutions are inter-trade transactions.

**4. Suitably develop urban credit cooperatives and financial leasing companies.** In areas where there are too few urban credit cooperatives to meet the needs of the "two small" enterprises, we can continue to develop more urban credit cooperatives. Areas with enough credit cooperatives should limit their number and concentrate on organizing cooperative associations. The urban credit cooperatives buy shares into a cooperative association whose main duties are to coordinate the internal operations and handle the lending and borrowing and settlement of funds and other administrative tasks such as the workers' salaries for the shareholding urban credit cooperatives, and, at the same time, as a business entity the cooperative association should also launch its own business within the scope of business of an urban credit cooperative, but its fund transaction with the various credit cooperatives are transactions between depositor and lender, and it must not transfer and appropriate funds nor should it charge management fees.

At present there are only seven leasing companies in the country, far from adequate for meeting the needs of enterprise equipment leasing and fund gathering, especially in the leasing of Chinese-made equipment. Therefore, we should develop some leasing companies which handle mainly domestic equipment leasing and fund gathering activities. Leasing companies should adopt a shareholding system; they are independent corporations which keep independent accounting records and have the right to run their own business and the responsibility to take care of their own profits and losses. Enterprises and financial institutions may buy shares of these companies.

**5. Actively support the reform of the housing system, and let the postal department issue postal savings.** In support of the reform of the city and township housing system and the commercialization of housing, with the approval of the People's Bank's first level branches or branches in cities on the planning list, qualified specialized bank branches in the large and mid-sized cities may set up a real estate mortgage department. This should be an independent accounting unit which runs its own business, takes care of its own profits and losses, and balances its own funds. The department will mainly handle the fund gathering operations relating to the reform of the housing system and take care of commercial housing development and investment. It may hang out its shingle to attract customers, but it is not an independent corporation, and no "financial business operation permit" will be issued. Allowing the postal department to expand the postal savings network is something the localities should seriously look into, and if there is the need, and if conditions are right, it should be supported. Because postal savings entail higher cost, they may be transferred at "original cost" or lent to specialized banks or other financial institutions in need of funds at cost, or they may be transferred at cost to the fund gathering companies.

#### **Amplify Legislation and Strengthen the Administration of the Financial Institutions**

**We must emphasize the formulation of financial administrative system, method, and regulations.** Based on reform accomplishments in previous years, the head office is prepared to revise old and promulgate new national financial administrative system and regulations such as the "Regulations Pertaining to the Administration of Trust Investment Companies," "Regulations Pertaining to the Administration of Urban Credit Cooperatives," "Provisional Measures For the Management of Enterprise Group Finance Companies," and the "Provisional Measures for the Management of Leasing Companies." Where the bank has not stipulated standard methods, localities may set up regional measures according to the needs of local reform experiments. Those methods may be implemented upon approval by local governments.

**Enforce the law and strengthen administration and supervision of the financial institutions.** In 1988, areas must conduct comprehensive inspection of all financial institutions under their jurisdiction according to the financial administrative methods and regulations formulated by the bank or approved by the local governments. All violations must be rectified. Cadres in charge of financial administration should examine the financial institutions thoroughly on a regular basis and gradually put financial administrations on a standardized track.

**Tighten the examination and approval of financial institutions.** To make sure that the reform of financial institutions will proceed in an orderly fashion, and to prevent everybody from jumping on the bandwagon, all financial

institutions, including the enterprise group finance companies, the financial leasing companies, securities companies, fund gathering companies, credit rating companies, insurance companies, newly established banks and branches and subbranches, and urban credit cooperatives and cooperative associations, set up on a trial basis will be audited and examined by the People's Bank's main branches or a branch in the city on the planning list and reported back to headquarters for approval. Institutions examined and approved locally before April 1988 should put things in order and report to the higher authorities. Operations in full compliance will be issued new permits by the head office; non-complying operations will have to shut down. Financial institutions such as trust investment companies, urban credit cooperatives, and branches and subbranches of the specialized banks which are not experimental will retain the original graded administrative system. At present, there are numerous trust and investment companies, and in fact there are too many of them in some localities, and they have moved too far ahead of the others. Within this year, no new trust investment companies may be added by the specialized banks or set up at below the provincial level (excluding the provincial level). Trust investment companies should switch to a shareholding system. This year, we should concentrate on setting up experimental units rather than opening new companies everywhere. They should all report to the bank for approval. We must emphasize once again that local governments and administrative departments in charge may not operate banks or financial organizations. No department or locality may approve the opening of new banks or any other financial institutions on its own.

**Reinforce basic financial management work.** One, set up financial markets and financial institutions. Financial market records should be assembled locally and sent to the financial management department for filing. The principle is, whoever approved the financial institutions should keep track of them. Two, establish a system linking the key banks and the key financial institutions and conduct statistical analyses of the financial market and the financial institutions' business activities and submit a statistical analysis report to the bank headquarters regularly. Three, improve the way financial administrative tasks are handled. Use computers and other modern tools and set up a nationwide financial market and financial institution information network. Four, launch policy and theory studies on the administration of the financial market and institutions to guide the financial work more effectively.

To ensure the completion of the above tasks, branch banks must emphasize and improve leadership of financial management work, and promptly study ways to solve problems, augment financial administrative capability, stabilize the contingent of cadres in the financial management tasks, increase their business training, and raise their standard of financial administration.

## FOREIGN TRADE, INVESTMENT

### Forecast on Long-Term Trade Agreement With Japan

40060026 Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 88 pp 11-13

[Article by Lu Kejian 0712 0344 0313: "Review and Forecast of Sino-Japanese Long-Term Trade Agreement"]

[Excerpt] According to the stipulations of the Sino-Japanese Long-Term Trade Agreement, a Sino-Japanese Bilateral Committee is to hold a regular meeting once a year. In June of this year, both sides held the ninth regular meeting in Tokyo and celebrated the tenth anniversary of the signing of the Long-Term Trade Agreement. In addition to reviewing the implementation of the Sino-Japanese Long-Term Trade Agreement in 1987 and its development over the past ten years, the two sides also discussed such issues as the expansion of Chinese crude oil and coal exports to Japan, technology trade and the like. In order to allow the Sino-Japanese Long-Term Trade Agreement to develop continuously, both sides should make efforts in the following areas:

1. Expansion of coal exports to Japan. Japan must import over 90 million tons of coal for power stations and coking coal annually, but China's exports to Japan account for only about four percent of this, an excessively small proportion; moreover, Japan's coal imports from China over the past several years have very seldom been able to achieve the minimum limit stipulated in the Long-Term Trade Agreement. Several Japanese customers not parties to the agreement want to import coal from China, but Japan's Ministry of International Trade and Industry has not approved this. Under such circumstances, China has repeatedly expressed the hope that Japan would increase the volume of its coal imports from China and the number of customers. In November 1986, Premier Zhao Ziyang told Japan's visiting Prime Minister Nakasone that he hoped that Japan could increase its coal imports from China by 2-3 million tons annually over the current annual level of four million tons. At the time of the eighth regular meeting of the Long-Term Trade Agreement, held in September 1987, Chairman Liu Xiwen [0491 1585 2429] represented China in formally expressing to Japan the hope that the maximum volume stipulated in the Long-Term Trade Agreement (4.1 million tons) would be increased by 2-3 million tons. Japan has not yet made a positive response to this; it has merely indicated that it would increase the number of customers in an attempt to increase the import volume of coal. Due to the effect of the rise in value of the Japanese yen, Japan has already decided to gradually reduce domestic coal production and increase foreign imports. China's coal resources are abundant, with a complete range of varieties; railroad transportation, harbor handling capacity, and quality guarantee facilities are constantly being perfected; and such things as the price, quality, and delivery of coal exports have all

been improved. Therefore, China hopes that Japan will take into consideration its own economic interests and the long friendship between Japan and China and give priority to increasing imports of Chinese coal, as well as allowing Japanese customers not parties to the agreement to import Chinese coal. At the same time, China hopes that Japan will continue to cooperate in such areas as helping China to further improve quality and strengthen the competitiveness of its exports.

2. Crude oil trade. Through the mutual efforts of both sides, this has been carried out relatively smoothly. The volume of Daqing crude oil exports to Japan increased from one million tons in 1973 to 9.2 million tons in 1986; this occupies a decisive position in Sino-Japanese trade, and will be an important component of Sino-Japanese trade for a long time to come. In 1987, actual transactions of Daqing crude oil under the Long-Term Trade Agreement reached the ceiling amount of the agreement, and China asked Japan to increase the amount of the 1988 contract from the original 8.8 million tons to 9.31 million tons. In response to this, Japan agreed to increase the amount of the contract to 9.1 million tons, and to renegotiate in the event that the remaining 200,000 tons were deemed necessary. As long as both sides continue to actively cooperate, Sino-Japanese oil trade is likely to achieve further growth.

3. The issue of trade in technical facilities. Trade in technical facilities under the Long-Term Trade Agreement has developed well on the whole, and its achievements are its main aspect.

Since the 1970's, China has imported many advanced technical facilities from Japan. As everyone knows, Japanese firms participated in the first and second phases of the Baogang project, the Daqing polypropylene project, and others, and Japan has become China's main trading partner. According to China's incomplete statistics, during the 10 years from 1978-1987, the China National Technical Import Corporation (TECHIMPORT) imported a total of 215 whole facilities from Japan under the Long-Term Trade Agreement, totalling \$5.322 billion. Last year, however, the monetary amount of Sino-Japanese technical facility trade was less than that of the previous year. A major cause of this decrease, in addition to the rise in the value of the Japanese yen, was the occurrence of the "Toshiba Incident," and the Japanese Government's strengthening of "embargo" restrictions. This not only causes economic losses for China, it also had a negative effect on Sino-Japanese economic and trade cooperation. The "Toshiba Incident" originally occurred between Japan and the Soviet Union, but the measures adopted by the Japanese Government made China the biggest victim. Not only was it forbidden to honor the contract of approximately 2.4 billion Japanese yen which Toshiba Machine Co, Ltd had concluded with China, about \$900 million in export contracts between other Japanese firms and China could not be implemented because the Japanese Government strengthened restrictions. These contracts could not be

implemented on time, causing China to suffer major economic losses, and also adversely affecting the development of the two nations' bilateral economic and trade relations. We hope that the Japanese Government will really do as it has promised many times—relax its “embargo” restrictions on China, and allow Sino-Japanese technology trade to develop smoothly, based on the good cooperation already established.

This year is the tenth anniversary of the signing of the Sino-Japanese Long-Term Trade Agreement, as well as the tenth anniversary of the conclusion of the Sino-Japanese Peace and Friendship Terms. For the sake of the long-term interests of our two countries, we hope that the Sino-Japanese Long-Term Trade Agreement can continue to play a more active role in the long-term stable development of Sino-Japanese economic and trade relations.

## LABOR

### Practices of ‘Socialist Labor Discipline’ Viewed

HK2810141488 Beijing JINGJI GUANLI  
in Chinese No 8, 1988 pp 4-10, 64

[Article by Wang Haibo 3076 3189 3134, and edited by Lin Daojun 2651 6670 0689: “On the Fundamental Practice of Socialist Labor Discipline”]

#### [Text] I. An Extremely Important Question

China's national economy has been growing steadily since the 3d plenary session of the 11th CPC Central Committee. However, problems exist in our economic development. Among them the general laxness of labor discipline is an extremely important one that merits attention.

The lax labor discipline is mainly illustrated by the very low proportion of effective labor time to the time required by the institution (usually 8 hours). According to a random survey conducted by the China Development and Research Center for the Promotion of Science and Technology of the State Science and Technology Commission, at present the effective work time in Chinese industries and enterprises only accounts for 40-60 percent of the institutional work time, and the actual work time only accounts for 84.7 percent of the institutional work time. On the average, each person puts in 40.64 hours of actual work time and 19.2-28.3 hours of effective work time each week.<sup>1</sup> In addition, according to JINGJI RIBAO, in the Shijiachuang No 1 Plastics Factory, where the inventor of the “full load work method,” Zhang Xingrang, works, the average effective labor time per worker per day in 1984 was only 2 hours and 18 minutes. By 1987, after implementing the “full load work method,” it had increased to only 3.8 hours. The Shijiachuang No 1 Plastics Factory is already more advanced than other factories in labor power utilization. Therefore, we can guess at the labor power utilization in other factories.

There are several explanations for the low utilization of labor power. First, in spite of our tremendous achievements in the reform of the economic system, the latter is still far from completion. Strong mechanisms for motivating people and getting the best out of them [dong li ji zhi ya li ji zhi 0520 0500 2623 0455 1090 0500 2623 0455] and efficient incentive mechanisms have not really been formed in the market or in the overall economic administration by the state. Therefore, it is difficult to promote greater efficiency in the utilization of labor power. Second, since 1979 many basic proportions in our national economy (such as the proportion between agriculture and industry, light industries and heavy industries, etc.) have become more coordinated. However, the imbalance among basic industry, parts of the infrastructure, and direct production has not fundamentally changed. As a result, a shortage of raw materials, motive power, and transportation power has led to an inability of the enterprises to perform well and to the low efficiency in their utilization. Third, China for a long time has been practising the policy of low wages and high employment. Although this policy previously played an important role, it also caused widespread on-the-job unemployment or invisible unemployment. According to an estimate by a department concerned, in state-owned units at present, 15 million people are in on-the-job unemployment. This is also an important reason for the low utilization of labor power. In any case, the generally lax labor discipline at present is a very important reason.

The generally lax labor discipline is in turn a result of many factors. First, during the present transition between the old and the new systems, while egalitarianism remains the major problem in distribution, unreasonable and wide gaps in income differences have also emerged. Second, soaring price hikes have led to a drop in the actual standard of living for some people. Third, we have been successful in the implementation of the factory director responsibility system. However, enterprise management is still not democratic enough, and the position of workers and staff as owners of the enterprise has not been adequately manifested. Fourth, there are corrupt practices both in the party and in society. Some people use their power to make unjustified profits for themselves. All these factors have brought a negative influence to labor discipline.

Not only has laxness in labor discipline lowered the utilization of labor power and the overall economic results, it has also brought out grave problems in social production and other aspects as well as corroded socialist spiritual civilization. Comrade Zhao Ziyang recently pointed out: “The key to our entire economy lies in enterprise performance. If enterprise performance is poor, many problems will surface. The reorganization of China's industrial technology is important, but management is even more important. Or, put another way, China is backward in technology, but even more backward in management. We must urge ourselves to strengthen our discipline and management.”<sup>2</sup>



The general laxness in our labor discipline is related to our not having established a fundamental setup of socialist labor discipline both in theory and policy. Therefore, it is of special significance to examine this fundamental setup.

## II. The Fundamental Practice of Labor Discipline in the Socialist Economy

The conventional economic theory sees labor discipline in a socialist society as the laborer's voluntary discipline; i.e., discipline maintained with the laborer's own awareness and willingness. However, the practice of the socialist planned commodity economy has challenged this basic setup of labor discipline.

First, the conventional theory ignores the principle of distribution according to work, more reward for more work, less reward for less work, and no reward for no work (hereafter shortened as distribution according to work), which is central to socialist labor discipline.

Distribution according to work is a basic principle of distribution of consumer goods among individuals in the socialist economy. There is no doubt about the objective inevitability of its existence. However, whether distribution according to work is a major form of labor discipline (i.e., the reliance mainly on distribution according to work to maintain labor discipline in the socialist economy) has not attracted much attention. During the historical stage of socialism, labor is not yet the primary need of life. It is a means of making a living. Therefore, distribution according to work is a strong economic force that exists objectively and motivates people to work. Lenin explained this clearly. As a "bourgeois right," distribution according to work "is unavoidable in the first phase of communism; for if we are not to indulge in utopianism, we must not think that having overthrown capitalism people will at once learn to work for society without any standard of right. Besides, the abolition of capitalism does not immediately create the economic prerequisites for such a change." "Now, there is no other standard than that of 'bourgeois right.' To this extent, therefore, there still remains the need for a state, which, while safeguarding the common ownership of the means of production, would safeguard equality in labor and in the distribution of production." "... (F)or right is nothing without an apparatus capable of enforcing the observance of the standards of right." Lenin also said that "the whole of society will have become a single office and a single factory, with equality of labor and pay," and that "the proletariat, after defeating the capitalists, after overthrowing the exploiters, will extend this 'factory' to the whole of society."<sup>3</sup>

It must be emphasized here that the socialist economy posited by Lenin here is directly inherited from Marx' idea in the "Critique of the Gotha Program." It is seen as the product economy here. Based on this theory, Stalin established a highly centralized economic administrative system in the Soviet Union in the 1930s. Today, practice

in socialist nations has adequately proved that such a system must lead to every enterprise eating from the same big pot provided by the state and every worker eating from the same big pot provided by the enterprise. The principle of distribution according to work cannot be thoroughly implemented and cannot be an effective economic force and a major form of labor discipline. Things have changed a great deal under the conditions of the socialist planned commodity economy. Here the enterprise becomes a producer of commodities. The reward for its workers and staff depends upon the results of the enterprise's production and management and the labor contribution of the workers and staff to the enterprise. There is competition between one laborer and another, one enterprise and another, and enterprises and laborers. This can effectively change the situation in which enterprises eat from the same big pot provided by the state and workers and staff eat from the same big pot provided by the enterprise, so that the principle of distribution according to work can be truly and thoroughly implemented and become a truly strong economic force and a major form of labor discipline.

Presently, China is in the initial stage of socialism. Distribution according to work has a special inevitability and importance as a strong economic force and a major form of labor discipline. This is first because our socialist society was founded not on the basis of developed capitalism, but on the basis of a semicolonial and semifederal society. The majority of socialist laborers were originally small producers. Unlike the modern proletariat, they have not been trained in mechanized production and its consequent discipline. They demand more strongly than the proletariat does the same amount of reward for the same amount of labor. Second, during the initial stage of socialism, it is impossible to quickly realize mechanized production throughout society. Manual production and semimechanized production will continue to account for a large proportion of social production for a long time to come. Thus, it is impossible to use mechanized production to train the laborers' work discipline across the whole of society. Third, during the initial stage of socialism, apart from the socialist economic sector, which plays a leading role, there are also a number of economic sectors (such as the individual economy, the private capitalist economy, and the state capitalist economy) that are necessary complements of the socialist economy. Under such conditions, if we do not make full use of distribution according to work as a major form of labor discipline, we will not be able to show the superiority of the socialist economic sector over the other economic sectors, which will be unfavorable to the consolidation and development of the socialist economy.

It must be pointed out that during the historical stage of socialism, the principle of distribution according to work (including the principle of no reward for those who do not work) applies to all members of the socialist economy as a strong economic force and a major form of labor discipline. However, a review that was widely



accepted for a long time maintained that the principle of no reward for those who do not work only applied to a handful of elements of the exploitative class who had not been successfully remoulded or were sluggards. Actually, the principle of no reward for those who do not work is an important component of the principle of distribution according to work. Negating this point is equal to negating the principle of distribution according to work.

Second, the conventional economic theory ignores unemployment discipline, which occupies a supplementary position in socialist labor discipline.

The primary question that needs resolution here is whether unemployment exists in the socialist planned commodity economy. The conventional economic theory sees unemployment as a phenomenon unique to the capitalist economy and denies that unemployment also exists in the socialist system. Actually, the objective inevitability of unemployment also exists in the socialist planned commodity economy. First, socialist enterprises are also commodity producers. An important condition for enterprises to increase their value and take part in competition is the freedom to choose the labor power they need. This is one side of the question. On the other hand, during the historical stage of socialism, the laborer is not only free in terms of his body, but he also owns his labor power since it is his means of making a living. In the socialist economy, the means of production belong to the public, to socialist state-owned enterprises that include some elements of enterprises under collective ownership, and to enterprises under collective ownership. To realize his integration with the means of production, the laborer has to go through a process of buying and selling labor power between him and the enterprise. Therefore, during the historical stage of socialism, labor power is still a commodity and the laborer is still free to choose his occupation. The enterprise has the freedom to choose laborers, and vice versa, and so it must lead to the unemployment of some laborers for a certain period of time.

Besides, competition exists between one enterprise and another in the socialist economy. In the process of competition, enterprises that are well managed will expand and those that are not will go bankrupt. The bankruptcy of some enterprises must lead to the unemployment of some laborers for a certain period of time.

In addition, Marx said: "The technical basis of (modern) industry is therefore revolutionary, while all earlier modes of production were essentially conservative. By means of machinery, chemical processes and other methods, it is continually causing changes not only in the technical basis of production, but also in the functions of the laborer, and in the social combinations of the labor-process. At the same time, it thereby also revolutionizes the division of labor within society, and incessantly launches masses of capital and of work people from one

branch of production to another. Modern industry, by its very nature, therefore necessitates variation of labor, fluency of function, and universal mobility of the laborer." <sup>4</sup>

The socialist economic system is fundamentally different from the capitalist economic system. However, both represent developed commodity production with big industries as its material and technological basis. Therefore, what Marx revealed about the law of mobility of a large amount of labor power between one department and another as determined by the nature of big industry can also be applied to the socialist society. To meet the demand of this law, under the conditions of the socialist planned commodity economy, in order that sources are well allocated, not only must assets grow but existing assets must be regulated too. This will inevitably cause some laborers to be unemployed for a certain time.

If we consider certain characteristics of the initial stage of socialism in China, it will be even easier for us to see the inevitability and necessity of this kind of unemployment. In terms of inevitability, during this stage the level of development of the social productive forces will remain low and it will be possible for the increase in labor service to exceed that in the means of production. It will be even more so when the organic composition of capital rises rapidly. If such a situation appears and we adhere to employment with high labor productivity, some workers will inevitably become unemployed for a certain length of time. If we sacrifice efficiency in our employment, on-the-job unemployment or invisible unemployment will be inevitable. However, a more important reason is that, at this stage, owing to our lack of experience and other reasons, mistakes are inevitable both in the establishment of an economic system or in the implementation of economic policies. For example, in the 1950s, the correct suggestion by some scholars to control the growth of the population was criticized for being a Malthusian theory. The result was a tremendous mistake in our basic national population policy that led to the rapid expansion of a population that already was large and contained a sizable waiting-to-be-employed group. Meanwhile, in the economic system we blindly pursued a unitary socialist public ownership system (mainly socialist state ownership) and a highly centralized economic administration system, and they both greatly restricted employment channels. Under the guidance of low wages and high employment, widespread invisible unemployment resulted. At present, in spite of the considerable improvement in the imbalance of the economic structure brought about by the conventional economic development strategy, the problem has not been fundamentally resolved. Also, some new forms of imbalance have emerged. The lives of the Chinese people have changed from the satisfaction of basic needs to modest comfort at present. The drastic change in the consumption pattern that is taking place or has taken place demands a corresponding regulation of the industrial structure. However, the industrial structure that has been formed already has the characteristic of closed

self-sufficiency. Obviously it cannot meet the demand to further open itself up to the outside, not to say the demand of the world technological revolution. All this has made the regulation and reorganization of the industrial structure an imperative task in the realization of socialist modernization at this stage. Such a regulation of the industrial structure will also cause some laborers to be unemployed for a certain of time.

In terms of necessity, the laborers at this stage were originally small producers. They are inferior to the modern industrial worker both in thinking and education, and there is no modern production measure to restrain their labor discipline. Therefore, as a strong economic force, unemployment discipline is especially necessary at this stage. Many economic sectors exist in China today, of which the private capitalist enterprises and state capitalist enterprises undoubtedly have the freedom to choose their labor power, which will bring unemployment. If the existence of unemployment is artificially prohibited in the socialist economy, these capitalist enterprises will be put in a position of unequal competition with publicly owned enterprises. Clearly it is against the demand of the development of the socialist planned commodity economy to do so and unfavorable to the development of social productive forces.

Since unemployment still inevitably exists in the socialist economy, it has of course become a strong lever for the consolidation and strengthening of socialist labor organization. However, it is both necessary and possible to restrict unemployment within a very small scope in the socialist planned commodity economy. Therefore, as a strong economic force, unemployment discipline plays a role only within a restricted scope. In other words, it only plays a supplementary role in socialist labor discipline.

Here unemployment as a socialist labor discipline refers to the laborer's involuntary unemployment. It does not include the laborer's voluntary unemployment. In actual fact, since the laborer has the freedom of occupational choice in the socialist economy, there must be some amount of voluntary unemployment during a certain period of time.

Third, the conventional theory also exaggerates voluntary discipline, which only plays a supplementary role in the socialist labor discipline, as the only discipline.

Undoubtedly the socialist economy has eradicated exploitation and oppression. The laborer works for the society, the collective, and himself/herself. Therefore, having been exposed to socialist ideological propaganda, the laborer may realize labor will bring individual benefits, collective benefits, and social benefits, and consequently form his/her own voluntary labor discipline. This is an important aspect showing the superiority of the socialist economic system over the capitalist economic system.

Even so, the laborer's voluntary discipline formed as a result of the ideological influence of the socialist system plays a supplementary, not a central, role. Still less is it the only discipline. In all socio-economic systems, the main labor discipline is a strong economic force. Such a strong economic force can only have its roots in the economic relations of society, not in its ideology. Practice in the development of human history has sufficiently proved this point.

In the five existing socio-economic systems, each major form of distribution is a major strong economic force that exists objectively. It motivates the laborer to take part in production. Therefore, it exists in the form of a major labor discipline. In the primitive commune economic system, the primitive form of egalitarian distribution was a major economic force that motivated members of the commune (excepting members who had no labor power) to work. In various exploitative economic systems (including the slave economic system, the feudal economic system, and the capitalist economic system), the exploiters use their ownership of the means of production to possess the surplus labor of the exploited. They are divorced from production labor. For them the form of distribution is of course not an economic force to motivate them to work. For the exploited, however, obtaining necessary products is a form of distribution. Without exception this form of distribution motivates them to work. Since work is still a means of making a living in the socialist system, distribution according to work remains an economic force that motivates people to take part in work. We do not deny the influence of socialist ideology on labor discipline. In fact, this influence exists even in various kinds of exploitative systems. Various exploitative classes often employ an ideology that works in favor of their class interest to manipulate the laborer to form a certain voluntary awareness so as to protect the labor discipline of various exploitative systems. The characteristic and superiority of the socialist ideology lies in its ability to form a truly voluntary labor discipline and in its ability to make better use of the protection of the main form of labor discipline. However, this voluntary discipline clearly cannot replace distribution according to work as the main form of discipline, let alone as the only form of discipline.

We must admit that during the historical stage of socialism, voluntary labor discipline can be the main aspect of labor discipline for a handful of advanced people with communist awareness. However, it is impossible for most members of the society to be at this level.

This analysis shows that, during the historical stage of socialism, voluntary discipline influenced by socialist ideology can only play a supplementary role. The exaggeration of voluntary discipline as the only socialist labor discipline is related to the mistaken understanding of the following thesis of Lenin. In 1919, when the Soviet administration had just been established, Lenin said: "The communist organization of social labor, the first step toward which is socialism, rests, and will do so more

and more as time goes on, on the free and conscious discipline of the working people themselves who have thrown off the yoke both of the landowners and capitalists." <sup>5</sup>

First, Lenin did not deny distribution according to work as the major form of labor discipline in the socialist society. On the contrary, it was precisely he who clearly stated that the whole socialist society would become a factory with equal labor and equal reward, and that distribution according to work would be a discipline for this kind of factory. <sup>6</sup> Second, the prerequisite of Lenin's thesis was Marx' idea in "Critique of the Gotha Program," i.e., the prerequisite of the denial of the existence of commodity production in socialist society. Therefore, it was impossible to be aware of the existence of unemployment discipline in this society. However, practice in many socialist nations for more than half a century has sufficiently proved that commodity production still inexorably exists in socialist society.

It is also necessary to point out that here Lenin linked voluntary discipline with "the masses of laborers who have overthrown the oppression by landlords and capitalists." During the early phase of the Russian Soviet administration, the overthrow of the landlord capitalists brought great and fundamental economic and political benefits to the masses. It was these kinds of benefits that kindled the fiery passion for labor and voluntary labor discipline among the masses. Lenin also pointed out: "The new discipline does not drop from the skies, nor is it born from pious wishes; it grows out of the material conditions of large-scale capitalist production, and out of them alone. Without them it is impossible." <sup>7</sup> This is Lenin's materialistic analysis of the voluntary labor discipline under the socialist system. It is very different from the idealistic view which was popular in China for a long time and which attributed the formation of voluntary labor discipline to ideological education.

From the above analysis we arrive at the conclusion that the fundamental practice of labor discipline in the socialist economy can perhaps be summarized as distribution according to work occupying the leading position and unemployment discipline and voluntary discipline the supplementary position.

### III. Channels for the Realization of the Fundamental Practice of Socialist Labor Discipline

Work is needed in many aspects in order to realize the fundamental practice of socialist labor discipline. However, the most important and the most direct work is to reform the traditional wage system, which can no longer meet the requirement of the discipline of distribution according to work, and the labor management system, which can no longer meet the requirement of unemployment discipline. We have to establish a new wage system and a new labor management system to meet the requirements of these two disciplines.

First, as previously mentioned, the conventional and highly centralized wage system has led to the phenomenon of every enterprise eating from the same big pot provided by the state and every work and staff member eating from the same big pot provided by the enterprise. Therefore, to realize the discipline of distribution according to work as an economic force, we must fundamentally reform this system.

Here we must first set a target mode for the reform of the wage system. During the historical stage of socialism, the socialist ownership of the means of production is not purely state ownership. It includes an element of partial enterprise collective ownership. In the ownership of products, this element is manifested mainly in the form of ownership of the reward fund for labor. This ownership in turn determines the enterprise's power to decide on the allocation of the reward fund for labor. Then this power to decide on the allocation of the reward fund for labor goes back to guarantee the realization of ownership. Both the ownership and the power of allocation are an important means to strengthen the enterprises as commodity producers in competition and their realization of relatively independent economic benefits. However, socialist nations that practice the socialist planned commodity economy must adopt mainly indirect means of overall management in the aspects of the total amount of the reward fund for labor, growth of the level of the reward fund for labor, and the relative level of the reward for labor between departments and between enterprises. Therefore, the wage reform can be proposed on the following mode: State-owned enterprises can have autonomy over distribution under the conditions of adopting mainly indirect control in socialist countries.

To gradually realize this target mode is the first and most important link in making distribution a strong economic force and a major form of labor discipline. Another link is to strengthen and improve enterprise management and to establish a strict labor measurement system and a rational form of distribution.

However, corresponding reform in other aspects is also needed so that these two links become a truly strong economic force. The most important aspects of corresponding reform lie in the following. Develop a healthy market system and form an environment for market competition between the enterprises on an equal basis. In the aspect of distribution of surplus product funds, the state should take over the extra income enterprises have made by possessing and using natural resources in the form of resources taxes and land use taxes. The state should also collect a capital possession fee from enterprises at a medium interest rate so that enterprises can compete on an equal basis. The labor force should be distributed by means of the market mechanism, and the competitive mechanism should be introduced into the enterprises. In this way, distribution according to work can truly become a strong economic force in the aspects of overall state control, market mechanism, and management inside enterprises.

Second, as the main component of the conventional economic system, the centralized job placement system contradicts the requirement of the commercialization of labor power and fundamentally excludes unemployment. Therefore, we must fundamentally reform the centralized job placement system and introduce the market mechanism to the distribution of the labor force so as to make the unemployment discipline a strong economic force.

To achieve this we must carry out related reform in many aspects. First, the state has to grant enterprises autonomy over the hiring and firing of workers and staff and give legislative guarantees of this autonomy. The recently issued state-owned industrial enterprise law recognizes this autonomy. According to this law, "enterprises have the right to hire and fire workers and staff members in accordance with the law and State Council regulations."<sup>8</sup>

Next, society should establish unemployment insurance. Capitalist societies forced workers to lose their jobs while unemployment insurance had not been established. Although China is still at the initial stage of socialism and its level of social productivity is still low, we must not repeat what was done in capitalist societies. Unemployment should be allowed only when unemployment insurance has been set up. Of course, like all forms of distribution, the amount of the unemployment insurance fund must be restricted by the level of development of social productive forces. For this reason the level of the unemployment insurance fund for China at the present stage cannot be on a par with that for economically developed nations. We can only have a low level of unemployment insurance.

In fact, the State Council formulated "Provisional Regulations for the Insurance for Waiting-To-Be Employed Workers and Staff of State-Owned Enterprises" in July 1986 to meet the requirements of the labor system reform, promote the rational mobility of the labor force, and secure the basic needs of state-owned enterprise workers and staff during unemployment. According to the regulations, all workers and staff members of enterprises that have announced their bankruptcy, those that have been fired as a result of enterprises streamlining their organization during a period set by law when they are about to go bankrupt, workers whose labor contracts have been terminated or rescinded, and workers and staff dismissed by enterprises can obtain 50-70 percent of their standard wages, depending on the length of their service and the length of time they have been waiting for a job. Job waiting relief is provided for up to 2 years for those whose length of service is more than 5 years, and up to 1 year for those whose length of service is below 5 years. Enterprises turn over what is equivalent to 1 percent of the total amount of standard wages of their workers and staff to the state as job waiting insurance fund. The management and issuance of the job waiting insurance fund for workers and staff is in the hands of

the labor service company under the local labor administrative department. We expect the unemployment insurance fund system to further develop and perfect with the deepening development of China's economic reform.

Next, concepts have to change. The long-standing centralized job placement system has formed a deeply rooted traditional concept in people's minds; namely, unemployment is a phenomenon unique to capitalist societies and one of the superior aspects of socialist societies is the exclusion of unemployment. Socialist practice shows that this concept only reflects a shortcoming of the conventional economic system which is mainly characterized by egalitarianism. It does not reflect the superiority of the socialist planned commodity economy. Such egalitarianism is not part of the socialist planned commodity economy; it is even more backward than capitalism. The superiority of the socialist planned commodity economy lies not in whether there is unemployment. It lies in the restriction of unemployment to a small scope given the same level of social productivity, the ability to establish and gradually set up an unemployment insurance system, and the integration of the unemployment discipline with the discipline of distribution according to work and voluntary discipline, which is in turn an important tool for the consolidation of socialist labor organization.

At the same time we must emphasize that although unemployment discipline, as a tool for the consolidation of socialist labor organization, is in line with the laborers' collective and fundamental benefits, it is in conflict with the traditional idea and against the personal interests of some workers and staff during a certain period of time. Therefore, while implementing this reform, we must accurately estimate the extent to which people can bear with it psychologically, conduct widespread publicity, and help people to change their ideas in depth. This is an essential condition for the smooth implementation of this reform.

Another question that calls for investigation here is whether making unemployment a discipline to consolidate socialist labor organization will lead to large-scale unemployment and affect social stability. I think the reality may not be so. The reasons are as follows. First, while 15 million people are in on-the-job unemployment in state-owned enterprises at present, first line workers are short 15 million people as well. The most important cause for the latter is distribution according to work and unemployment not having become a truly strong economic force and labor discipline. If this discipline is formed, surplus workers in production can fill those vacancies. Second, the discipline of distribution according to work and unemployment discipline will also greatly boost social labor productivity and the growth of the surplus product fund in society, and in turn provide the material conditions for socio-economic and cultural development and for the expansion of employment

channels. Third, there is much possibility for the expansion of employment channels. Since 1979, China has achieved a lot in the development of multiple economic sectors. Still, while adhering to the principle of the socialist state economy as the leading economic sector, much space is left for expansion in the development of multiple economic sectors. Besides, there is still much space left for the development for tertiary industries in spite of remarkable progress in this aspect in China. Also, in the formulation of industrial policies, we can develop more industries that combine labor-intensive industries with labor- and technology-intensive ones, according to the needs and possibilities. We need to do so especially in the course of developing the export-oriented economy in the coastal areas. We can also increase the export of labor power. Therefore, if handled well, allowing unemployment discipline to exist will not necessarily cause large-scale unemployment. In the long run, when the current problem of widespread invisible unemployment has been resolved and the peak in the growth of the employed population has passed, and when the development of our socialist economy and population is under normal conditions, the unemployment discipline will be even less likely to lead to widespread unemployment. Rather, it will be an important factor for the promotion of socialist production and relief of unemployment. This does not mean that the unemployment rate will not rise after introducing the unemployment discipline. However, in 1957, when our urban unemployment rate reached 5.9 percent, our social stability was not affected. By 1986, unemployment had dropped to 2 percent.<sup>9</sup> So the limited growth of the unemployment rate should not threaten social stability.

Lastly, we must point out that when we say the voluntary discipline of the laborer occupies a supplementary position in the fundamental practice of socialist labor discipline, we do not mean that voluntary discipline is not important, nor that voluntary discipline is an easy thing to do. We must realize that as an important means of voluntary discipline, ideological and political work is a good party tradition and where the superiority of the socialist system lies. We should emphasize and make full use of this superiority. However, ideological and political work has for a long time been dampened by wrong "leftist" influence, especially during the 10 years of the Cultural Revolution. In the last 10 years or so, ideological and political work has been neglected to some extent, and the current ideological and political work cannot meet the requirements of the present stage of development. Owing to many imperfect policies, many people in ideological and political work do not devote their efforts to their work. Much more investigation is needed in the aspect of how to do good ideological work, especially under the conditions of the socialist planned commodity economy. This makes doing good ideological and political work and forming voluntary discipline a very difficult work that requires arduous labor.

In sum, to form a fundamental practice of socialist labor discipline, we must implement the discipline of distribution according to work and the unemployment discipline

according to the requirements of the socialist planned commodity economy on the one hand, and strengthen and improve ideological and political work on the other, so as to raise the voluntary discipline. In this aspect, it is of course wrong not to prioritize, however, it is also wrong to emphasize only one aspect and to neglect the other.

#### Footnotes

1. JINGJI CANKAO 11 March 1988 p 4
2. JINGJI RIBAO 18 May 1988 p 2
3. Lenin: *Selected Works: The State and Revolution* Vol 3 pp 252, 256, 258
4. Marx: "Capital" in *Collected Works of Marx and Engels* Vol 23 pp 533-534
5. Lenin: *Selected Works: A Great Beginning* Vol 4 p 9
6. Lenin: *Selected Works: The State and Revolution* Vol 3 p 258
7. Lenin: *Selected Works: A Great Beginning* Vol 4 p 9
8. "PRC State-Owned Industrial Enterprise Law" in RENMIN RIBAO 16 April 1988 p 2
9. "China Statistical Yearbook 1987" in ZHONGGUO TONGJI CHUBANSHE p 128

#### AGRICULTURE

**Development of Mainland Freshwater Lake**  
40060032 Hong Kong LIAOWANG [OUTLOOK  
WEEKLY] Overseas Edition in Chinese  
No 35, 29 Aug 88 p 6-8

[Article by Yang Shanqing 2799 0810 3237, Tai Dianda 1966 0368 6671, and Zhou Zhenfeng 0719 2182 0023: China's Five Large Freshwater Lakes Are in Urgent Need of Comprehensive Development]

[Text] There are five large freshwater lakes dispersed across southern China—Poyang Lake, Dongting Lake, Tai Lake, Hongze Lake, and Chao Lake—that are like five bright pearls inlaid in the middle and lower reaches of the Chang Jiang, adding color and splendor to the area south of the river. For a number of years now this region has been promoting the advantages of these bodies of water—exploiting floodwater storage for irrigation, aquatic breeding, and shipping functions, and nurturing the richly endowed land.

New vitality has been infused into these great five freshwater lakes as there has been an upsurge in developed agriculture in recent years. Grass farms, as well as forestry, livestock, and poultry breeding enterprises are off to a good start on the previously little-used lakefront.

Purse seining and fish culturing in net pens have appeared on the previously tranquil lakes and intensive fish breeding pools are scattered all along the water's edge. Some lake regions have also established endangered-bird sanctuaries and tourist sightseeing spots. The natural resources abundant in these lakes are increasing being developed for multipurpose use.

#### **Rich Natural Resources: Expanding the "Great Land" View**

Various rivers pass through these lakes and connect on the outside to the Chang Jiang, forming a gigantic water network on lower reaches. Network plays an important role in supporting the east and opening up the west, as well as in binding north to south. Given the growing shortage of freshwater lakes in China and in the world itself, these lakes seem even more precious. They provide excellent conditions under which to develop industries—especially those with large freight volumes and high water requirements—along the Chang Jiang economic corridor. The five lakes have a combined water-storage capacity of 58 billion stere. When the water level in the Chang Jiang rises we can effectively alleviate the threat of flooding along its lower reaches by channeling water into these lakes. When its water level falls we can ensure industrial and agricultural production, water transport, and water for household use by allowing water to pour from the lakes into the Chang Jiang. Poyang Lake alone empties 145.7 billion stere of water into the Chang Jiang each year—more than the total volume of water flowing into the sea from the Huang He, Huai He, and Hai He combined.

Although natural resources are abundant in these five great lakes, in the past, when we thought of "grain as the crucial element," people fixed their attention only on limited arable land resources and neglected to develop lake resources. As we have revised our production mix in recent years we have also begun taking steps to develop and utilize these five great lakes, but the majority of their resources still lie "dormant."

Surveys indicate that in terms of fish alone there are more than 280 varieties in our five great freshwater lakes, and such rare, treasured aquatic animals as the finless porpoise and the Chinese alligator are also dispersed in these areas. In addition there are a rich variety of shellfish, wild ducks, lotus root, and other aquatic products; concentrations of rare birds; luxuriant growths of marsh grasses and woods; and spectacular vistas. All of these things lend themselves to development. The five lakes encompass from one million to several million mu, and each one covers one or more counties. They present seductive prospects for development.

Tai Lake crosses and connects Jiangsu and Zhejiang. In the past few years Suzhou City in Jiangsu has developed fish culturing in enclosures and spread high-yield fish-pond production techniques over a large area, raising the average per-mu yield to 300-400 kg and top yields to

over 1,000 kg. All at once Suzhou's fish output is six to seven times higher than the average per-mu output for the lake as a whole. Some lakeshore counties and villages are also using water resources to develop special lake production zones to produce whitebait and finless porpoises and to increase foreign exports. In 1987 they exported 600 tons of whitebait alone, and foreign exchange earnings shot up.

Suzhou's exploitation of aquatic resources at Tai Lake has made everyone realize the potential for exploiting five great lakes. The Aquatic Products Bureau of the Ministry of Agriculture has calculated that aquatic breeding is now being conducted over a total area of four million mu on large and medium-sized lakes in China. If all such areas were to develop fish culturing in enclosures, as Suzhou has done, the aquatic breeding area would double, the unit yield would rise to 500 kg, and output would reach three to four million tons. China's gross freshwater fish output would be roughly equal to 1.5 times what it was in 1984.

Some experts on agricultural economics have pointed out that if we are to resolve subsistence problems for China's one billion people and accelerate national economic growth, particularly growth in the export-oriented economy, we cannot focus only on limited arable land resources. We must also exploit our rich lake resources to the fullest. This exploitation could be considered a small investment for an enormous profit. First, it would not occupy arable land resources; second, it would bring high economic returns—for example, one mu of enclosed fish-breeding area produces an income twice as high as that produced by farm crops; third, it would produce a savings on investment—construction costs for lake fish breeding are 80 percent lower than for pond fish breeding over a comparable area.

Some lake districts have followed this line of reasoning and begun to achieve results that are spurring economic development throughout the lake region. In 1985 Hongze Lake, situated on the north bank of the Chang Jiang, formulated a comprehensive development program and proposed a tentative plan to build the lake district into a tourist vacationland and a production base for multifarious aquatic products and lake specialty goods. In the past two years the lake district has undertaken development construction in five stages: 23,000 mu of new intensive fish breeding pools were opened along the shores of the lake, cultivation was withdrawn and lake waters restored to 40,000 mu of low-lying wasteland, aquatic cash crops cultivation was begun in the shallow zone, and 13,000 mu of enclosed fish-breeding areas were established in branch streams. In 1987 Hongze Lake produced 279,000 dan of fish, up 70,000 dan over 1985. For the first time the quantity of cultivated fish exceeded the natural fish catch. In the lake district the GVIAO reached 650 million yuan, up 10 percent over 1985, and the average per capita farm income increased 80-plus yuan.

However, as it stands right now less than half of the vast water surface on the five great lakes is being utilized. In most places development work is still in the planning stages. Concerned experts who have analyzed the situation conclude that there are various reasons for the slow development, but primarily there has been no breakthrough in understanding how to operate and manage this vast water area.

#### **Revising the System of Organization: The Joint Development Route**

Every year for the past few years, come fishing season a thousand boats set sail, ten thousand nets go into the water, people are in an uproar, and there are disputes and fights across the great lakes as far as the eye can see. Inevitably there are many conflicts, and profit allocation relationships are quite complicated. Management is especially difficult on bodies of water that straddle borders. Under the old management system, more often than not administration was not the prerogative of any one side, and each party scrambled to protect his own interests, eager for quick success and instant benefits. Overfishing resulted, leading to natural resource depletion and unstable output. The situation deteriorated so far that "if you fished the lakes your losses exceeded your gains."

In the lake fishing industry, as in other professions, for a long time now people have been accustomed to "operating as a single family" and ignoring everyone else's interests. State-managed fishing grounds and local people have clashed violently, and neighbor relationships have been tense. All this has affected lake development and utilization. In addition, "government-sponsored" investment was not well-coordinated, funding was limited, and inputs were minimal. As a result people were absorbed with getting whatever they could. They caught fish instead of raising them because they believed that fish breeding was difficult to manage. Within the fishing industry procedures were chaotic, economic returns plummeted, and the per-mu yield on the great lakes did not reach five kg—far below its potential output of 15 kg per mu.

Some experts believe that the key to changing the current state of affairs lies in reordering the respective relationships between the fishing grounds and the people, the fishermen and the farmers, and the different administrative districts involved; arousing initiative on all sides; and developing the forces of production together. In this regard, some well-managed inland lakes in the Dongting Lake district of Hunan have adopted "centralized management, coordinated development, and open-access operations," and have essentially revised profit allocation relationships in the fishing industry. They have also reformed three aspects of the system of organization on the great lakes. First, they have centralized leadership in the fishing industry. The higher levels of government now convene the various parties concerned to organize

and construct a system for managing the fishing industry. This system is responsible for doing the overall planning, enhancing coordination, and developing leadership. Second, they have revised the system of fishing industry operations and switched from "independent household operations" to coordinated development focused primarily on the state. They have implemented an open-access style of operations, developed various economic elements, encouraged all different kinds of lateral economic associations, and backed lakeshore villages, units, economic associations, and individuals in their use of lake bays and branches to raise fish in net surrounds and pens. They have also put into practice the principle that whoever invests the capital may run the business and earn the profits, and they have proposed that the state, collectives, and individuals join in a common effort to develop operations. This year, in order to solve the problem of funding for lake fish breeding efforts, Yuanjiang County on the shore of Dongting Lake in Hunan opted to coordinate state-run fishing grounds with villages and production units, lease large areas of water, and invite bids on contracted peripheral water areas. It raised more than four million yuan (including loans), increased inputs to the fishing industry, expanded stocked waters in the county by nearly 10,000 mu, and substantially raised the quantity of fish stocked. This year output will pick up significantly. Third, these lakes have improved the system of fishery management and administration. The provincial people's congress issued local fishing industry regulations, adopted integrated professional and mass management—with mass management remaining predominant—concluded agreements with the rural people, and divided up responsibilities. It also established contract management and compensation for services rendered and put the task of lake management into effect all the way down to the grass-roots organizations. Thus, fishing procedures in the lake district have improved, fishing disputes have subsided, and fishing by permit has become the norm. Poaching, racing to be first to the fishing grounds, fish poisoning, and fishing with explosives have all declined substantially. The lake catch has increased 12.7 percent over 1986.

Administrative and management reform in the fishing industry can be likened to a spark being ignited in each lake district. Some counties and villages on Poyang Lake in Jiangxi have adopted divided management, strengthened the management responsibility system, promoted resource pooling to buy shares, and accelerated development on the great lakes, with some success. Some villages bordering the lake have become bustling fishing villages and appear prosperous in the water (aquatic products), on the land (livestock and poultry husbandry), and in the air (wild duck raising). Tai Lake in Jiangxi has adopted coordinated development of diverse economic components, multi-channel fund-raising, a multi-level system of organizing operations, and coordinated multifaceted management methods. This has promoted the development of lake fishery production. In 1982 Hongze Lake began to import 10 million dollars worth of foreign



capital arranged by the Program Committee of the Food and Agriculture Organization of the U.N., and this was input into development programs and enhanced basic facilities. In 1987 Hongze Lake was successful in substantially raising the yield of fresh fish and increasing fishermen's incomes by 10 percent.

Some experts in Anhui have made suggestions on how to manage Chao Lake, a lake that straddles borders. They want the province to establish an authoritative Chao Lake management bureau to coordinate relations between Hefei and Chao Lake and handle lake development and utilization. In addition, some knowledgeable individuals in the planning and management organization of the Five Lakes Commodity Fishery Base have put forward proposals seeking a more reasonable burden of responsibilities. They do not want to whip a "fast oxen," but instead hope to gradually reduce the state's mandated program of fish regulation and expand the share regulated through the market. Then, proceeding to the next step, they hope to achieve equal-value exchange between management and producers in the fishing industry.

#### **Strive for Sound Strategies: Produce More Reports on Results**

Over the course of developing these lakes in the past few years, some bordering counties first reclaimed land from the lakes and later withdrew from the land to restore fishing. They "treated the head when the head ached and treated the foot when the foot hurt," thus doing a great deal of work to no avail. Chao Lake, situated in central Anhui, has a water surface of more than 1.1 million mu and is teeming with whitebait, shrimp, carp, crucian carp, and other kinds of fish. The construction of flood-gates has interrupted the passage of migratory fishes on the Chang Jiang and reduced the winter beach area, and the growth of aquatic vegetation has also been affected. Because of this, fish output has totalled only 5.5 million kg and the per mu yield has been less than 5 kg. To everyone's regret, the water is half barren.

The people have learned from their mistakes and come to the following conclusion—our strategy for developing the five lakes cannot be a one-track affair. We must take all factors into consideration and make plans accordingly, so that each move complements the others. In recent years Hongze Lake, which in the past was used primarily to ensure irrigation, has concentrated on developing both aquatic products and tourism. Right now it is launching rest areas, pole-fishing spots, hunting areas, and other tourist projects. By digging deep to tap potential, Tai Lake, on which transportation and the aquatic products industry are developed and flourishing, is now ranked as one of China's natural scenic lakes. There are many scenic spots, clubs, bathing beaches, and vacation villages, each with its own special features. Some are under construction and some are already in use. Several hundred foreign tourists visit Tai Lake each

year, generating considerable foreign exchange. Tai Lake has become a precious commodity that "produces money by the pound each time the sun rises." Chao Lake, the smallest of the five lakes, also has scenery with a unique, picture-like quality. Here there are many cultural relics, and many of the natural features of the landscape—the mountains, rivers, lakes, and springs in the region—as well as its human features, have been opened up as tourist spots, drawing crowds of domestic tourists.

Knowledgeable experts are saying that in terms of producing aquatic products on our five great freshwater lakes—which constitute China's natural fish storehouse—we should promptly cast off the old set pattern of primary dependence on catching fish. We should consider socioeconomic factors and the characteristics of the body of water concerned and then either catch, raise, or breed aquatic organisms, as appropriate. We should combine aquatic breeding and husbandry and make comprehensive use of the whole body of water and the bait food it contains. We should stock herbivorous fish, replenish new colonies of ecetic fish, and use the different layers of water space. Gradually we must guide the lake fishing industry in the transition from capturing aquatic organisms to raising them, and from extensive to intensive aquatic husbandry. We must try to discover and create various different kinds of development patterns, gradually improve the water area utilization ratio, raise output, and increase returns. In recent years the city of Jiujiang in Jiangxi began to develop an aquatic product breeding industry on a more than 10 10,000 mu lakes connected to Poyang Lake, setting up a low encircling dike within which to raise fish. During the flood season this method of aquatic husbandry can pen the fish without restraining the water, and during the dry season, although the lake dries up the fish do not. This does not interfere with agricultural irrigation but it does develop fishery production; thus it is successful in satisfying both sides.

Scientific workers feel that the program for developing fishery production on the five great lakes should produce one dominant industry, a diversified economy, three-dimensional development, and multipurpose utilization. In the shallow water regions of the lake great efforts can be made to develop all kinds of aquatic plants: water chestnuts, water lilies, lotus root, Gorgon fruits, arrowhead plants, wild rice stems, water shields, and reeds. On the island beaches we can make full use of the land to dig pools and build ponds, and to develop and raise specialty aquatic products: pearls, soft-shelled turtles, crabs, and bullfrogs. In the area surrounding the lake we can also develop swine, cattle, geese, duck and other livestock and poultry husbandry. At the state-run Donghu fishery on the edge of Dongting Lake seven workers have used 35 mu of water to raise fish and pearls together. In three years time they have earned 130,000 yuan. Their economic value is 1.4 times greater than what it would be if they had raised fish alone. This facility has been designated as one of the state's pearl exporting bases.



### Modernization Move Towards 'Procedural Politics'

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[Article by Yan Jiaqi 0917 1367 0366: "From 'Non-Procedural Politics' To 'Procedural Politics'"]

[Text]

#### 1. Basic Characteristics of Traditional Chinese Politics

Throughout human history, people often found it easier to understand past events and historical phenomena but were bewildered by what was happening at the time. All too frequently they failed to unshackle themselves from the ideological fetters their time imposed on them and tended to reinterpret what was currently happening. Once garbed in new clothing, all past events are regarded as new. Yet time is the most merciless judge. When "present" becomes "past" and "reality" becomes "history," and when the shortcomings of "new things" reveal themselves clearly to more and more people, we finally recognize the persistence of tradition in historical development and open our eyes to the various traces of the past in "our time."

No other tradition lasted longer in China's millennia of history than the dynasty. No other inertia was as powerful as the dynasty. The dynastic chain remained unbroken by wave upon wave of peasant warfare and endless palace coups, rebellions by military governors, and foreign invasion. Reviewing China's history, we come across many celebrated feudal emperors and politicians whose enlightened policies and rule revitalized China time and again, resulting in one feudal heyday after another, such as the "Rule of Wenjing," the "Rule of Zhenguan," and the "Rule of Kaiyuan," only to be undermined, however, by incompetent and fatuous emperors. Thus did the Chinese people live, sigh, and suffer through the millennia as dynasties rose and fell. Chinese history was an endless parade of the dark and corrupt aspects of dynastic politics—the deification of monarchical rule, the murder of officials who had rendered outstanding services, the monopoly of power by eunuchs and the emperor's in-laws, factional struggles, the appointment of oppressive officials, unjust verdicts, struggle for the throne, succession strife, and all manner of court intrigues. Once a dynasty went into decline, the Chinese people were more oppressed than ever. Separatist warlord regimes and their tangled warfare too had brought the Chinese people unparalleled suffering. Be that as it may, when a new dynasty was established or when a dynasty had a temporary resurgence, the disaster just gone seemed to become part of the distant "past." In the heyday of a dynasty when people assumed no disaster would befall them again, however, a new calamity might be brewing. Thus did the great Chinese people suffer through cycles of disaster. Thus was social wealth ruined and destroyed regularly.

The "boom-and-bust" cycle in Chinese traditional politics was inseparable from its four characteristics. First, the concentration of absolute power, indivisible and untransferable, in the hands of one man. Second, the existence nationwide of a monolithic, pyramid-shaped power structure; there was no sense of horizontal "power-sharing" among the people. Third, there were no limits on the reach of administrative power in China; it could intervene in all facets of social life. "Absolutism" was deeply embedded in public consciousness. Fourth, the exercise and succession of power followed no established procedures.

While there were laws under dynastic rule in Chinese history, the emperor was never subject to any law. "The law comes from the emperor." Monarchical power transcended all the laws of the land. "The defiance of laws human and divine" was exactly the legacy of this kind of non-procedural monarchical rule. Because there was no absolute guarantee for the absolute power in the hands of one individual—power founded on the hereditary principle and moral authority, an inherent need of this kind of non-procedural politics was to strengthen monarchical power. Toward that end, the emperor often resorted to all sorts of mean and brutal tricks to eliminate all elements that stood in his way. Since the emperor enjoyed life tenure, his death frequently led to a major upheaval. When an emperor had been bent on having his way and old policies could not continue, imperial succession foreshadowed policy changes, followed by a major reshuffle of ministers and officials. Since the struggle for the throne and competition for official positions were interwoven, court conspiracies and palace coups were legion. Even the selection by an emperor of a successor before he died could not eliminate a succession struggle. When monarchical power fell into the hands of others, the throne would become the plaything and tool of the power-holders and the struggle for the throne would become even more ferocious.

The complexity of political intrigues in this kind of non-procedural politics was mind-boggling. It was often assumed that such politics followed no rule. Court conspiracies were common events. The law of monarchical succession was often violated. Those who did good deeds were not necessarily rewarded with good fortune, while misfortune did not necessarily befall the evil-doers. Crafty sycophants were promoted to high positions but honest ministers and officials were often pushed aside and murdered. Yet one rule prevailed steadfastly in this kind of politics through thousands of years, namely that absolute power, indivisible and untransferable, was concentrated in the hands of one individual in the state and that it was around it that all sorts of political struggles to preserve, usurp, strengthen, or weaken it revolved. The royal succession statute or the deceased emperor's will only ensured that the legal heir would succeed to absolute power with a little less effort. In principle, any individual in the inner circle (members of the royal family, the emperor's in-laws, ministers, warlords) could become a candidate for such power by declaring himself

the new emperor. However, to make himself the real emperor, he must also win the "loyalty" of people who wielded political and military power. Time and again in Chinese history, a peasant war broke out only to resurrect the same power structure "with absolute personal power, indivisible and untransferable." Even when a peasant war overthrew the old dynasty, a new one emerged to take its place. The four characteristics of traditional Chinese politics lived on.

## 2. Political Transformation in 20th Century China

Chinese politics in the 20th century have been influenced by four major historic events, namely the 1911 Revolution, the establishment of the PRC, the Cultural Revolution, and the confrontation on the two sides of the strait. Although the 1911 Revolution overthrew the Qing Dynasty and began spreading republicanism across the land, it did not really break the cycle of dynastic rule in China or put an end to the four characteristics of traditional Chinese politics. Yuan Shih-kai's effort at monarchical restoration sounded the death knell of republicanism, followed by the reappearance of traditional warlord politics all over China. Chiang Kai-shek established what was superficially a united nation free from warlord separatism. But people knew very well that what Chiang Kai-shek had wrought was not a democratic republic but a new autocratic dynasty tinged with colonialism.

Armed unification by a warlord failed to break the stubborn cycle of dynasty or to eliminate the four characteristics of traditional Chinese politics. Peasant wars too did not put an end to dynastic rule. Either a peasant war was suppressed by the dynastic rulers or became an instrument of dynastic change and succession. Whatever the origins and personal qualities of the leader of a peasant war, it invariably led to the establishment of a new dynasty after victory. No one peasant war in Chinese history deviated from this principle of history. The armed forces led by the CPC in the first half of this century were mostly made up of peasants. As Mao Zedong said, "The armed struggle of the CPC was essentially a peasant revolution, a peasant war," the greatest such war in modern Chinese history since the Taiping Rebellion. And this was precisely the reason why in the rectification period in Yanan in 1944 Mao Zedong called for special attention to the lessons of the transformation and degeneration of a peasant revolution. If the tradition of Chinese history were any guide, the latest triumphant peasant war should have ushered in a new powerful dynasty. Yet an ancient historical pattern was given new content in the 20th century: in 1949 a new state, the PRC, appeared in China.

In 1949 Chinese history entered a new era. Actually three different development trends emerged across the land. On the mainland, the 1950's saw a string of striking economic achievements. Beginning in the late 1950's, however, the commune movement turned village after village into a self-sufficient and isolated production unit

with no "lateral links." A rigid command-planning economy also severed the lateral links between enterprises. In effect the social structure of China began changing in a way that ran counter to modernization. Time and again the Chinese people participated in movements like the "anti-rightist movement," the "four clean-ups movement," and the Cultural Revolution. It was assumed that these movements would speed up modernization. History though has its own principles of development and no individual can free himself from the constraints his era imposes on him, a fact fully illustrated by the disastrous consequences of the Cultural Revolution. From 1966 onward, under the banner—"continue the revolution under the dictatorship of the proletariat"—and with the slogan—"prevent capitalist revival," an extraordinary movement involving millions, tens of millions, and even hundreds of millions of people swept across China. Mao Zedong worship became a religious fanaticism under which people readily succumbed to the idea of "selecting revolutionary successors." The "13 September incident" and the famous "May 1971 engineering summary" shocked the Chinese people. Yesterday's "deputy commander-in-chief" and "successor" today laid bare his opposition to the supreme commander and the inconsistency between his words and deeds. When the tide of the Cultural Revolution gradually receded, more and more people began to understand what was happening around them. As Marx wrote in "The Eighteenth Brumaire of Louis Bonaparte," "An entire people, which had imagined that by means of a revolution it had imparted to itself an accelerated power of motion, suddenly finds itself set back into a defunct epoch." Through a variety of superficial phenomena, people finally realized that what was billed as the era of the Cultural Revolution was a time when feudalism ran wild as never before. Traditional Chinese political characteristics had survived in the PRC.

## 3. Signs of "Non-Procedural Politics" in Contemporary China

The Cultural Revolution epitomized non-procedural politics in modern China. For 3 decades after 1949, supreme power in China was actually centralized in the hands of one man, indivisible and untransferable. Because of the lack of differentiation between party and government and the substitution of party for government, power assigned by the constitution to government leaders in fact was exercised by party leaders. So-called "lack of differentiation between party and government" means that "the party is empowered to give orders to the government in all aspects of government work." Through leading party groups in government departments, the CPC was able to sidestep government department heads at all levels who were not secretaries of the leading party groups and exercised direct leadership over all government departments. Frequently party secretaries and members of the standing committees also issued detailed administrative instructions to government departments, social organizations, institutions, and enterprises at the lower levels. In the real world of

politics in China, there were actually two sets of overlapping institutions handling state administrative affairs. The "lack of differentiation between party and government" and "the substitution of party for state" mean that above the government provided for by the constitution there was another government wielding important policy-making power. While the Chinese constitution stipulates the power of the National People's Congress, the State Council, the Supreme People's Court, and the Supreme People's Procuratorate, among others, in the final analysis power was centralized in the hands of one person. And it was around the preservation and consolidation of this power that modern Chinese politics played out for years. But there was this difference from traditional Chinese politics: such supreme power was neither conferred by heaven nor hereditary. It was based on the correctness of the ideology of the individual who exercised it. Once the leader was deemed to have diverged from the orbit of Marxism ideologically, he lost power. During the Cultural Revolution, the idea of "continuing the revolution under the dictatorship of the proletariat" was touted as the "third milestone in Marxism." Any thought or opinion that contradicted it was declared "anti-Marxist." After the revolution, such thinking was renounced and people who advocated or persevered in it also lost power. Thus only when his ideology was perfectly correct could the individual who held absolute power consolidate his position. In Mao Zedong's days, Peng Dehuai's [1756 1795 2037]'s criticism of Mao Zedong's "three red banners" was an act aimed at undermining the latter's power. To preserve his absolute power, Mao Zedong had no alternative but to declare that Peng Dehuai had deviated from Marxism ideologically and launch an "anti-rightist opportunism" movement throughout the party that culminated in Peng Dehuai's removal from power. In pre-Cultural Revolution China, Liu Shaoqi, Peng Zhen, and others had actually become centers of power not totally under Mao Zedong's control. Thus Mao Zedong must unleash a massive struggle to weaken and destroy their centers of power. And during the Cultural Revolution, when Lin Biao, Huang Yongsheng [7806 3057 0524], Wu Faxian [0702 3127 2009], Li Zuopeng [2621 0155 7720], and Qiu Huizuo [6726 2585 0155] created another power center by siphoning off some of Mao Zedong's absolute power, a confrontation between Lin Biao and Mao Zedong became all but inevitable. Up until the Cultural Revolution, Chinese politics still adhered to this ancient unshakable rule: there exists in the state a supreme power which is indivisible and untransferable and around which political struggles are waged. The political struggles, however, did not follow a predetermined course. At the Second Plenum of the Ninth CPC Central Committee in 1970, the praises by Chen Baida [7115 0130 6671], a member of the Lin Biao faction, of Mao Zedong as a "genius" were branded by Mao Zedong as "aprioristic idealism" that testified to Chen Baida's departure from "Marxism." After that meeting, the Chinese press unleashed a wave of criticism of Chen Baida's "bogus Marxism." In those days, it mattered not whether a person's ideas and speech were genuinely

consistent with Marxism. What was important was that once an idea was declared "bogus Marxism" or "anti-Marxism," the person who held such a view would immediately fall from power.

As we analyze modern Chinese politics today and compare it with its ancient counterpart, we discover that "opposing anti-rightist opportunism," "criticizing capitalist roaders within the party," and "counterattacking the rightist trend to overturn verdicts" basically had nothing to do with opposing the wrong line. Instead, they were inevitable struggles that were fought over the preservation of absolute personal power. Since Mao Zedong's was a life appointment and since his power was untransferable, modern Chinese politics unavoidably took on the non-procedural form of traditional Chinese politics. "Personality cult" was not really a question of "exaggerating the role of an individual in history." Rather it was something that must be done to strengthen the individual's indivisible and untransferable power. The choice of the likes of Lin Biao and Wang Hongwen [3769 3163 2429] as "successors" is fully comparable to the "anointing of a heir apparent" in ancient China. Thus as long as absolute power in the state was concentrated in the hands of one man, indivisible and untransferable, politics could only be of the "non-procedural" variety. After the Cultural Revolution, Chinese politics underwent a radical change. Up to a point, supreme state power in China today is not centralized in one person as in Mao Zedong's days and theoretically such power is no longer indivisible and untransferable.

As the market comes to play a larger and larger role in modern China, lateral links between social institutions multiply by the day. Be that as it may, the second feature of traditional Chinese politics—a monolithic, pyramid-style power structure—still exists. Under the Chinese constitution, the National People's Congress is the highest organ of state power, with people's congresses at the various lower levels operating as organs of state power for the appropriate level. In reality, the National People's Congress and its local counterparts are far from living up to their role as power organs. When a people's congress meets, the overwhelming majority of the deputies have no idea they are exercising state power. Instead they make suggestions and proposals and issue appeals endlessly. In China today, enterprises and production departments have gone a long way toward ending the lack of differentiation between party and government and party substitution for government. Nevertheless, the functions of party and government administrative units have yet to be clearly delimited. Traditionally, not only did party and government leaders consider themselves entitled to make decisions on the problems of an area, department, or unit, which accounted for their readiness to issue all sorts of directions, but the people themselves wanted the leaders to act in this manner and personally involve themselves in problems that should be resolved by the locality, department, or unit. With this concept of power prevailing, the notion that there should be a division of responsibility between party organs and state

organs and that power should be shared between government departments, enterprises, and institutions and among social organizations has failed to take hold firmly, as has the notion that there should be a clear division of power between government departments at various levels. In China today, the principle of official "omnipotence" has yet to be powerfully challenged. Party and state organs are still free to intervene in all facets of social life as they please. In short, numerous factors that contribute to "non-procedural politics" continue to exist in contemporary Chinese politics.

#### 4. How To Move Toward "Procedural Politics"

One billion Chinese people were swept into the huge storm of the Cultural Revolution. The suffering it brought remains fresh in our memory. The collapse of the Cultural Revolution prompted the Chinese people to demand that all practices in the revolution be mercilessly criticized and that another way be found to make China powerful and wealthy. Since the people clearly recognize the shortcomings of allowing one individual to wield absolute power for life, the constitution adopted in 1982 stipulates the term of office of the head of state and head of government and limits them to two successive terms. This is a decisive step in eliminating the country's traditional political characteristics and steering it toward procedural politics.

Democratic politics is one form of procedural politics. Democratic politics is not concerned with the search for the perfect man. Rather, it recognizes that human nature is imperfect and that man makes mistakes. In a group or collection of human beings who do not see eye to eye on objectives and value system, democracy means making policies or amending them in accordance with recognized predetermined procedures. Democracy does not guarantee that a policy is completely correct, but it does guarantee that a wrong policy will be corrected in accordance with predetermined procedures. When a majority in the group realize through real life that an earlier decision is erroneous, the original minority becomes a majority and the mistake can be corrected through predetermined procedures. In a democracy, an incompetent decision-maker can be replaced through predetermined procedures. Without democracy, people are powerless to replace a decision-maker through predetermined procedures. In traditional Chinese politics, power was concentrated in the hands of one person, indivisible and untransferable. It follows that major policy changes and correction of mistakes could be effected only through non-procedural methods. In traditional Chinese politics, it was generally assumed that whether politics was good or bad and whether the nation flourished or declined had very little to do with political institutions but had a lot to do with the caliber of the people who held power at all levels, particularly the one who wielded absolute power. Accordingly, if we are to adopt procedural politics, we must get rid of the "rule of man" characteristic of traditional Chinese politics and establish the concept of "restraining man with institutions."

The ruling party is the party that organizes a government. In organizing a government, the ruling party can absorb people from other parties as well as non-party personalities. Any political party has the right to put forward policies on major national issues. In a society "ruled by law," it is up to the ruling party to translate party decisions into national laws and government policies through constitutionally and legally prescribed procedures. In a socialist country, the leading nucleus of the ruling party is effectively the top decision-making center for state affairs. What frequently happens in the leading nucleus is this. When the person who wields absolute decision-making power in the nucleus disappears, personal leadership is replaced by a "collective leadership" based on the principle of one man, one vote. As time passes, "collective leadership" will once again give way to the individual with the most de facto decision-making power. The history of socialist nations shows that time and again the changeover from "collective leadership" to personal power centralization in the ruling party is effected through an "internal party struggle" that follows no set procedures or rules. Without an orderly transfer of power, there can be no democracy. To achieve democratic politics in China today, therefore, we must first create a comprehensive set of mechanisms within the ruling party so that a change of power in its leading nucleus can take place through predetermined procedures.

Party-government separation is a crucial step toward procedural politics and political modernization in China. The essence of party-government separation consists of more than assigning different functions to party and state organs. It also involves establishing the paramount position of the constitution and the law so that the creation, exercise, and change of the highest state power is effected fully in accordance with constitutionally and legally prescribed procedures and so that the "rule of man" gives way to the "rule of law." The party is not a state organ. Between party organs, on the one hand, and state organs, institutions, enterprises, and social organizations, on the other, there exists no relationship of administrative subordination. In the nation or in a locality, only organs of state power can handle national or local daily affairs as the sole recognized representative. Unlike organs of state power, the decisions of a social organization are binding on its members only. Similarly, the decisions of a party are binding solely on its members. In contrast, the decisions of an organ of state power are binding on society as a whole. Since the CPC is a ruling party, party leadership is political leadership and the party must translate party decisions into national laws and government policies through constitutionally and legally prescribed procedures. Party organs must not exercise the power of state organs. Only under the strict enforcement of party-government separation, therefore, will it be possible for the legislative, executive, and judicial powers of the state to be exercised by different state organs instead of party organs. Only thus can we put an end to the personal centralization of power characteristic of ancient China. And only thus will

the exercise and succession of power take place through constitutionally and legally prescribed procedures.

The modernization of Chinese politics is a long-term process. It is a process of establishing democratic politics as well as one of replacing the "rule of man" with the "rule of law." Separating party from government, perfecting the people's congress system, creating a national civil service system, practicing judicial independence, protecting freedom of speech, press, and association—all

this will help eliminate the four traditional Chinese political characteristics in a practical way. I believe political modernization is unstoppable in a country hard at work replacing its rigid and highly centralized system of economic planning with a market economy, a country that is increasingly open. Modern politics can take any one of a number of forms. In the months and years ahead, China will advance from "non-procedural politics" to "procedural politics" following the route that suits it best.

## EAST REGION

### Three Types of Contention Among Different Schools

40050003a Shanghai WEN HUI BAO in Chinese  
8 Jul 88 p 1

[Article by Tang Xuezhi 3282 1331 2535: "Three Types of Contention"]

[Text] In recent years, under democratic and harmonious social conditions, contention among different schools in academic and theoretical circles has been acute and lively. Take the literary circle for instance. Regarding the theory of "the subjectivity of literature" brought up by Liu Zaifu [0491 0375 1788], there have been supports, supplementary views, discussions, criticisms, countercriticisms, and criticisms on countercriticisms, etc. The full exposure to different opinions has formed a debate system of multiple levels and orientations. In this system, I think the concepts and attitudes of contenders can be divided into the following three types:

#### 1. The "struggle" type

Contenders of this type, in the back of their minds, still interpret the contention of the academic circle as the class struggle of the ideological sphere—namely, struggles between the proletarian and the bourgeois world outlooks, materialism and idealism, Marxism and anti-Marxism, and even socialism and anti-socialism. Because of this, they are determined to hold high the great banner of "upholding" and "defending" and wage, in a very serious and sincere manner, a struggle in principle against the so-called idealism and other anti-Marxist and anti-socialist theories. Their articles "look down from a high ground," are highly critical, and always take an irreconcilable position against the target of "criticism."

#### 2. The "supplementary" type

The contenders of this type think that on academic issues, no one can master all truths and that one can reach conclusions of different degrees of truth on the same subject of research if he approaches it from different angles and use different theories for reference and different research methods; so one must first give full respect to the serious scientific probes of other people and consider their new ideas, no matter how insignificant, to be a positive contribution. The articles of "discussion" written by this type of contenders often show an attitude of sincerity and equality. They scrutinize the success, failure, gains, and losses of the person under discussion from different points of view and then make enthusiastic affirmations, acute denunciations and criticisms, or positive suggestions and supplementary ideas accordingly, thus creating a situation in which they complement and co-exist with each other.

#### 3. The "constructive" type

The contenders of this type think that the primary purpose of contention is to improve theories and surpass predecessors while using their achievements as a basis. The contenders of this type have a broad vision, a strong awareness of times, and a great sense of historical mission; therefore, they focus all their attention on the consideration and construction of a new theoretical system. They enter into a contention with their creative theoretical achievements and often start or initiate a contention. They pay close attention to articles that criticize or discuss the controversial issue but usually stay out of or avoid concrete debates. Instead, they try to stay cool and draw useful lessons from various opinions so as to make their theoretical achievements greater and more scientific and maintain a vigorous, creative posture.

These three types are three totally different worlds. The first type is an expression of pernicious influence left over from many years of ultra-leftist thinkings, is destructive and obstructive to theoretical construction, and should be eliminated. The second type displays a positive and healthy new trend of contention. Debates of this type can fully mobilize the intelligence and enthusiasm accumulated by both sides to produce an unusual "intelligence by stimulation," thus providing an academic environment very suitable for scientific invention. Therefore, this type should be vigorously promoted. The third type is a higher state of contention. Only by establishing a theoretical system of individual characters after collecting the strong points of all schools can one be called a real school among the "hundred schools" that are allowed to contend. Only by establishing many theoretical systems of individual characters that complement and compete with each other can "hundred schools be allowed," in reality as well as in name, to "contend freely." Of course, it is not easy to attain this state. It will take the manner of a master, the courage of creating a system, a full preparation of knowledge, and arduous theoretical research. Therefore, we should show extra care for contenders of this type.

## NORTHWEST REGION

### Problems in Higher Educational Systems

40050021A Urumqi XINJIANG SHEHUI KEXUE  
[XINJIANG SOCIAL SCIENCES] in Chinese  
No 4, 15 Aug 88 pp 104-109

[Article by Huang Jiaqing 7806 1367 1987, Department of Chemistry, Xinjiang Normal University; responsible editor Lin Sheng 2651 5116: "Humble Propositions Regarding the Reform of Higher Education for Xinjiang Minorities"]

[Text] Under the present conditions of accelerating and thorough-going reforms and expanding opening to the outside world, an earnest study of the reform of higher

education for Xinjiang's national minorities has become one of the important topics of educational reform, and indeed a topic of great urgency.

### **I. Present Condition of Higher Education for National Minorities**

Development of higher education for the national minorities of Xinjiang has been speedy and remarkably successful. At the time of liberation, Xinjiang had only one institution of higher learning, which, furthermore, was badly equipped and had only a few departments and faculties. Its professors and students were few, and fewer still were its professors and students from the national minorities.

By 1987, Xinjiang had 20 colleges and universities, with altogether 10 branches of academic study and 92 faculties. Over 29,800 students attended these institutions, of which 17,800 were of minority nationality, accounting for 60 percent of the total number of students. In that year, for each 10,000 minority nationals in Xinjiang, 19.6 were enrolled in colleges and universities, which is a higher ratio than the average for the entire country, and places Xinjiang in 10th position among all 29 provinces and municipalities. During the 30-odd years, all of Xinjiang's institutions of higher learning have altogether trained and graduated over 46,000 students of various nationalities from their various departments, providing needed professional talents for all the various fronts of our endeavors. In the course of educational developments, the colleges and universities have, up to the beginning of 1988, 2,366 full-time instructors of minority nationality, which amounts to an increase of 182 times compared with the situation at the time of liberation, and which accounts for 34.8 percent of all currently employed full-time instructors at our colleges and universities. Among the full-time instructors of minority nationality, 125 are holding high-ranking academic titles, and 395 hold medium-rank titles, and their percentages in the total number of instructors of higher and medium-rank titles are 18.57 and 25.2 percent. These figures give a vivid picture of the flourishing condition of higher education for Xinjiang's national minorities.

However, there have also been inadequacies in the development, of which the most conspicuous problem is the problem of quality. Colleges and universities are to train high-grade professional talents, but those trained in Xinjiang's institutions of higher learning do not, for the most part, measure up to the demands of the educational outline. This is not a new problem that has just now come up, but is a long-standing problem in Xinjiang's higher education. The occurrence and existence of this problem does not at all signify that there is a problem about the intelligence of the students of minority nationality, but is rather a reflection of a multiplicity of problems in the method of instruction. Among these, I believe the two major factors that require reform are the language obstacle in instruction and defects in educational administration. Effective solution of these two

problems would greatly enhance the professional quality of minority nationality students graduating from colleges and universities. Let me state here my humble propositions regarding these two problems:

### **II. We Must Resolve To Run Effective Preparatory Courses at Institutions of Higher Learning**

The objective in running preparatory courses at institutions of higher learning is to train national minority students who have passed entrance examinations to institutions of higher learning and solve for them the language obstacle before they start specialized professional studies, with the purpose of enhancing the professional quality of national minority students at our institutions of higher learning. This is an effective instructional system at Xinjiang's institutions of higher learning and at some national minority schools in the interior, as well as at some colleges and universities in other provinces and regions. Among the older high-ranking intellectuals of minority nationality who in Xinjiang occupy leadership positions in institutions of higher learning, at scientific research units, and in production sectors, or who are core personnel in education, scientific research, or production, most have acquired spoken and written proficiency in the Chinese language through attendance at preparatory courses before entering on specialized professional studies, having there laid a very sound foundation for meritorious service in their occupations or professions. However, an instructional system of this kind, that is geared to the actual conditions and very effective, has had many ups and downs in Xinjiang: it was started, abolished, restarted, and again cut down. As a consequence, teachers and students have come to consider preparatory courses as not essentially necessary, and the teaching and learning became a haphazard matter, which did not achieve the purpose of running preparatory courses. In order to enhance the quality of higher education for minority nationals, this attitude, in my opinion, must not be allowed to persist, and we must resolve to set up effective preparatory courses. To achieve this purpose, the solution of the following problems must have our serious attention:

A. Gaining a correct understanding of the necessity and importance of preparatory courses, and of their relationship to the right of national minorities to use their own national spoken and written language.

Running preparatory courses and the teaching of spoken and written Chinese is a necessity for instruction and for improving instructional quality. When higher education was first started in Xinjiang, teaching materials at colleges and universities were in Chinese, and instructors were basically Han-nationality Chinese. Under these conditions, students who had not learned spoken and written Chinese were unable to understand lectures and to pursue studies, and improving the quality of instruction was out of the question. This was the condition that gave rise to the introduction of preparatory courses. The number of students from national minorities has now

greatly increased, but in the wake of college and university development, there has also been a greatly accelerated increase in departments and faculties, and many more than 300 types of teaching materials for common courses and basic professional courses have been developed in over 1,000 volumes, in addition to large numbers of data and reference books. Translation of this large amount of teaching materials, data, and reference books into the languages of the various national minorities of Xinjiang cannot possibly be accomplished, not to mention in a short time, but not even in 10 or 20 years' time, also not to mention the further problem that due to the rapid development of science and technology, teaching materials have to be constantly updated and supplemented. Present translation resources cannot possibly keep up with the speed and difficulty of these developments. In recent years great efforts have been made to provide teaching materials for colleges and universities in the Uighur language, but only 20-odd items in 30-odd volumes have been translated. As far as national minority teachers and students are concerned, the present state of instruction at Xinjiang's colleges and universities is: (1) National minority students without or with little knowledge of Chinese use textbooks translated into Uighur and attend lectures in the Uighur language; (2) In courses for which textbooks in the Uighur language are not available, teachers and students use Chinese teaching materials. Lectures are given in the Uighur language, but students who cannot read Chinese cannot prepare for the courses or read up on what was taught. Under these conditions, the only solution to the instructional problem is to have the teachers translate Chinese teaching materials and have it mimeographed for distribution to the students, and then to lecture in the Uighur language. This method makes it very difficult to enhance the quality of instruction. It is therefore only by running preparatory courses that the needs of instruction and of further developments can be met.

Leading cadres of the party committee of the autonomous region have proposed that instruction at colleges and universities should gradually change over to a method of giving priority to spoken and written Chinese. The party committee and the people's government of the autonomous region have therefore decreed that at primary schools where teaching is done in the language of the national minority, Chinese should be taught from the third grade on, so that at graduation from senior middle school, after 10 years of study, the students will have attained a level of Chinese that will enable them to understand Chinese lectures at colleges and universities and to read textbooks and teaching materials, and to use reference books, all written in Chinese. That is what we usually refer to as a level of spoken and written Chinese sufficient to surmount the language barrier. However, this course of study requires 10 years, not to mention that the spoken and written Chinese of national minority students graduating in the first and second years of courses will hardly be up to standards. But in that period, there will be 10 or even 20 groups of national minority graduates from senior middle schools that will pass

entrance examinations to colleges and universities. If in this situation there are no proper preparatory courses, it will be impossible to achieve a fast improvement in professional proficiency at least in the next 10 years in the national minority graduates graduating from colleges and universities.

When entering the work force after graduating from colleges and universities, the national minority students will have to continuously update their knowledge, continue the learning process, and to pursue advanced studies. They will also have opportunity to participate in domestic or foreign academic activities, interviews, and exchanges. These activities require and also demand of the national minority graduates from colleges and universities a fairly high degree of proficiency in spoken and written Chinese. Because China is a multi-national country in which over 90 percent are of Han-nationality, Chinese is China's commonly used language, and not only that, Chinese is also one of the official languages of the United Nations, and has thus assumed an increasing significance also in international contacts. This too will explain why running effective preparatory courses is a necessity for the continuing improvement of professional competence of Xinjiang's high and medium-rank intellectuals of minority nationality, and for their increased effectiveness in domestic and foreign activities.

No contradiction exists between running effectively conducted preparatory courses at institutions of higher learning and the effective study of Chinese, on the one hand, and the right of the national minorities to use their own spoken and written language, on the other hand.

First, the purpose of our advocating effective preparatory courses is merely to solve the problem of national minority students being able to understand lectures in Chinese and to read instructional materials written in Chinese; it does not in the least impede the use of the spoken and written language of their own nationality by national minority teachers and students. If China's middle school and university students of Han nationality, and of nationalities commonly using spoken and written Chinese, study foreign languages, and if Xinjiang's college and university students of national minorities whose spoken and written common language is not Chinese and who are not of Uighur nationality, are all presently attending lectures in the Uighur language and reading teaching materials in the Uighur language, it does not in the least have an adverse effect on their ability to use their own national spoken and written languages.

Second, our purpose of conducting preparatory courses for the study of spoken and written Chinese is very clear and definite, and very singular in nature, namely to improve the professional level of national minority students at colleges and universities. Language, whether spoken or written, is, as far as studies are concerned, only a tool for the transmission and reception of knowledge. Every nation that wants progress, wants development



and prosperity, and want to improve the quality of its citizens, must, in addition to mastering and developing proficiency in its own national language and literature, also try to gain proficiency in the language of another nation which has a widely used language and literature, and it would even be better still if it were possibly to learn the languages and writing of not only this one, but of several other nations. This would provide several keys to open the treasure houses of knowledge. Even speaking only of enriching, reforming, and developing one's own national language and literature, learning the spoken and written language of another nation will enable learning from other's strong points that can offset one's own weaknesses. Modern Uighur language and Uighur literature in use among Uighur nationals in China has developed by adopting over a long period of time elements from Chinese and from several foreign languages, writings, and cultures, while maintaining the excellent traditions of its own nationality. Such cultural borrowing was not only not harmful to Uighur language, literature, and culture, but such borrowing has even enriched and contributed to the development of Uighur language, literature, and culture.

The above will have made it fully clear that conducting preparatory courses and studying spoken and written Chinese will not only have no adverse effect on the right of national minorities to use their own national languages and writing systems, but that it will help improve the professional quality of national minority students at colleges and universities. It will also, in a thousand ways and without the slightest harm, contribute to the development of their own national culture and enhance the quality of their own nationals.

B. Conducting preparatory courses will not only implement the policy of giving priority to the study of spoken and written Chinese, but will additionally give instruction in the basic subjects relating to the specialized professional courses at the colleges and universities.

The purpose of instituting preparatory courses at colleges and universities is to be of service to national minority students at the institutions of higher learning, enabling them to go on to specialized professional studies where they will then be able to understand lectures in Chinese and to read teaching materials in Chinese. It goes without saying, therefore, that preparatory courses will primarily teach spoken and written Chinese. However, judging by the actual conditions of the last few years, national minority students have not only to cope with the language difficulty during their later high-level specialized professional education, but also encounter the problem of inadequate basic knowledge relating to their specialized line of study. This is the case because national minority students have been accepted by colleges and universities on the basis of a lower grade point record. Even if the language difficulty would be eliminated in the preparatory courses, they would under these

circumstances still face difficulties in pursuing specialized professional studies due to their inadequate basic knowledge, and the purpose of effectively enhancing the professional quality of national minority students would then still not be achieved.

Solution of this problem, basically speaking, would be to improve basic education, and to achieve the standards of the educational outline in all subjects being taught from primary school up to senior middle school. If spoken and written Chinese would be properly during the period of study from primary school third grade up to graduation from senior middle school, thereby enabling the student to directly understand lectures in Chinese and directly read teaching materials in Chinese, that, of course, would be better than anything else. But judging by the present qualification of teachers, neither of the two aspects of the instructional task, learning Chinese and acquiring the basics, could possibly be achieved in a short time. In the preparatory courses, it will therefore be necessary not only to firmly persist on the policy of giving priority to learning, and learning well, spoken and written Chinese, but necessary also to add the teaching of basic subjects that had not been adequately learned in senior middle school. The student will then at the end of his preparatory courses be up to standards in spoken and written Chinese, and will have at the same time suitably made up for the shortcomings in relevant basic knowledge missed in middle school, such basics being those required according to the instructional outline for middle schools. The student will then indeed have attained the true standards required for middle school graduation. Does this mean running a middle school in the preparatory courses? Of course not, because not every student in the preparatory courses will have to study every one of the subjects taught in senior middle school. Studies will also not start out from the most elementary. The student will rather have to study only one of the subjects, such as mathematics, physics, chemistry, biology, history, or geography, depending on the needs of his future specialization. Wherever there is a gap, the supplemental studies will have to fill that gap. Wherever basic knowledge is weak, that weak spot will have to be taken care of. I believe that preparatory courses of this nature will truly serve to enable national minority students at colleges and universities to effectively pursue specialized professional studies, and will effectively enhance the professional competence of the students. Current preparatory courses teach only spoken and written Chinese and nothing else. The present one year of preparatory courses does not relate to the basic knowledge of later specializations. As a result, the student will have almost completely forgotten at the time he completes his preparatory studies whatever little of the basics he has learned in middle school. It is therefore necessary, in my opinion, to suitably restructure the instructional objectives and the curriculum of the preparatory courses.

C. Extension of the duration of preparatory courses from the present one year to a two year system, and guaranteeing sufficient instructional time for effectiveness of the preparatory courses.

At present, preparatory courses at Xinjiang's institutions of higher learning are conducted according to a one year system, with rather unsatisfactory results. I consider it very unrealistic to expect that a national minority student without or with only poor basic knowledge of spoken and written Chinese can acquire the ability to understand lectures in Chinese in specialized professional classes at institutions of higher learning and ability to read teaching materials in Chinese on the topic of his specialization within the 9 months of the year, deducting the time of summer and winter vacations. Graduate students that China is now sending abroad have had 10 years of English and before leaving for abroad are trained for 3 or 6 months, even up to 1 year, in reading, understanding, and speaking, but are still apt to encounter difficulties abroad. In comparison, only 1 year of preparatory courses is too short, and if various middle school subjects are added to the instructions in the preparatory courses, the time is even less adequate. It would therefore be reasonable, in my opinion, to extend instruction in the preparatory courses from 1 year to 2 years.

Extending the preparatory course from 1 year to a 2-year system is not a new proposal of mine, but would be merely restoring and generally applying effective measures and sound experiences of long ago. Before the "cultural revolution," most of Xinjiang's preparatory courses at institutions of higher learning were of 2 years duration. In these 2 years, the primary subject was the study of spoken and written Chinese, but at the same time the courses supplemented basics not properly learned in senior middle school, and at that time the graduates from colleges and universities showed high professional competence. National minority students from Xinjiang who had passed entrance examinations to key universities in China proper, or whose training had been entrusted to institutions of higher learning in China proper, and who were found to be below standards in Chinese, were enrolled in 2-year preparatory classes either in Xinjiang or at the Central National Minorities Institute, where the primary subject was Chinese, but where supplementary senior middle school subjects were also taught. After finishing these courses, the students were again sent to the institutions which had accepted them on passing entrance examinations, and the results had been very satisfactory. Comparing this system with the 1-year system of preparatory courses now generally practiced in Xinjiang, we see a very obvious difference in the professional competence of the graduates.

The 2-year system will of course extend the study time by 1 year, which will add about 2,000 yuan to the educational expenses of each student. Calculated at the rate of 800 students per term, the national minority students graduating from institutions of higher learning will have to spend approximately an additional 1.6 million yuan per term. Under current financial conditions, this certainly poses a problem. However, considering the fact that we would be training highly competent specialized

technical talents from among the national minorities, and considering the long-term prospects, the money would, in my opinion, be well spent. It may be possible to squeeze out some funds by an appropriate restraint on the current speed and dimensions of the development of higher education, and invest that money in the area of improving quality.

D. Instituting preparatory study institutes, strict administration of preparatory education, rendering preparatory courses truly effective.

Preparatory courses now being run by Xinjiang's institutions of higher learning are conducted, administered, and evaluated as to their effectiveness by the institutions themselves, all having their own ways of instruction, demands, and standards. This unavoidably leads to great unevenness of results. If the instructors and supporting funds for preparatory courses at the various schools would be combined to establish an institute for preparatory studies, which would be independent of the various schools, conduct uniform instructions, lay down uniform demands and standards, hold uniform examinations, and institute uniform administration, it would, in my opinion, be much better than having each school "fight its own battles" and "each going its own way." The preparatory institute would still primarily teach spoken and written Chinese, so that the teachers of spoken and written Chinese would have to be full-time teachers. Supplementary lessons on senior high school basics would require somewhat less time and could be given by part-time teachers. For this purpose teachers from various institutions of higher learning or good middle school teachers may be invited to teach concurrently against appropriate remuneration.

The preparatory institute should be one of the regular institutions of higher learning, with its very own system, a tight system of instructional administration, and should in particular have its own educational outline. The achievements of students would have to be evaluated according to the educational outline, demands must be strict, and a system of advancement of satisfactory or retaining unsatisfactory students for another term must be firmly carried out. Students who are not yet fit to conclude their studies or not up to graduation standards may be permitted to continue at the institute for another year. At the end of that term, those who are up to standards shall still be allowed to graduate or conclude their studies. Those who would still not qualify, shall be asked to leave. The current wrong practice of allowing every student, regardless of achievements, to enter on his regular studies at the end of one year of preparatory courses must be definitely abolished.

After a certain period of hard work, after effective preparatory courses will have been instituted, after the proficiency in spoken and written Chinese of national minority students will have improved, a new problem will have to be faced for a certain period of time by the

present and future instructors from minority nationalities at the institutions of higher learning. That problem will be due to the fact that the students will be able to understand lectures in Chinese and will be able to read teaching materials in Chinese, but that the teachers from minority nationalities will themselves not have acquired the ability to lecture in Chinese and will be unable to read educational materials in Chinese. What to do about that? Some of the middle-aged and old teachers among teachers from minority nationalities at Xinjiang's colleges and universities can lecture in Chinese and read Chinese teaching materials and data, but the others, especially young teachers, are not up that level. I suggest, therefore, that from now on the educational commission and every institution of higher learning place on their agenda of the day the task to improve in a planned way the proficiency in spoken and written Chinese among all teachers from national minorities, either by allowing them temporary absence from duty for the purpose of studying Chinese, or by instituting spoken and written Chinese study classes for them. It is hoped that in the not too distant future teachers of Han-nationality may be able to instruct national minority students, and teachers from national minorities may be able to instruct students of Han-nationality. When that time will come, the educational quality in Xinjiang's institutions of higher learning is bound to assume a gratifying new appearance.

### III. Reform of the Educational Administration in Institutions of Higher Learning

Rendering educational administration more effective is guarantee for continuous improvement of the quality of teaching at the educational institution; it is therefore an important component of the educational reform. Based on the present condition of the administration at Xinjiang's institutions of higher learning, I put forward the following proposals for the reform of educational administration:

First, a unified educational administration shall gradually be developed for classes teaching national minority languages and for Chinese language classes at the institutions of higher learning.

Xinjiang's institutions of higher learning are all integrated schools having national minority students and Han-nationality students. Due to the language barrier, all specialized professional departments are split into classes of instruction in national minority languages and classes of instruction in Chinese. This has brought about a situation where national minority teachers and Chinese teachers of the same speciality, with the same curriculum, and the same teaching materials, although part of one and the same instructional and research office and working side by side, yet separately prepare their instructions, separately lecture, assign different subjects for tests, and differently evaluate examination papers. The teachers of the different nationalities very seldom discuss or study matters with each other when they prepare for class, or other matters concerning their

lectures and evaluations, or exchange information. It is unavoidable in this way that points of emphasis in class preparation and lectures differ, that classes differ in difficulty, and that different demands are made on the students. Under these circumstances, it is very difficult to assess the teaching quality of teachers of the various nationalities, and also difficult to measure the actual knowledge acquired by the students of the various nationalities.

Faced with this reality, in matters of class preparations, lectures, points of emphasis, the degree of difficulty, examination topics and grading of students of various nationalities, the educational outline must be guideline, and these matters should be gradually unified, and demands too should be gradually unified. To achieve this, the following reform measures should be adopted in the following proper order and advancing step by step, namely for the same level of national minority and Han-nationality classes of the same faculty and the same year, for uniform mid-term, end-term, and graduation examinations according to the educational outline, in three stages: From 1988 to 1990, national minority classes shall adopt the uniform examination topics to 30 percent, from 1991 to 1993, to 70 percent, and from 1994 to 1995 and thereafter to 100 percent.

To achieve the above-described gradual uniformity, I assume the following measures must be adopted: 1) National minority teachers and Han-nationality teachers must jointly make class preparations, must assist each other in class preparation, must jointly clarify and determine the points of emphasis and points of difficulties in lectures, and must jointly resolve procedural problems in instruction. At the same time, they should inform each other of the conditions of their lectures, and study and resolve all instructional problems together. 2) Supplemental classes shall be instituted for national minority students who are deficient in basic knowledge. Make them strive hard, so that they can attain acceptable standards by the time they graduate. Re-sha-lai-ti [3583 3097 0171 2251], an assistant professor of mathematics at Xinjiang Normal University, directed his students to take refresher courses in such basic middle school subjects as mathematical definitions, theories, and formulas, that they achieved satisfactory results in their studies and improve on their achievements. This example is worth emulating. 3) It is necessary to have a strict system for advancement of good students and retention of bad students for another term, and to ensure absolute trustworthiness of graduations. Students who are below standards must not be advanced and must not be graduated, but may continue at the school for one year, and if still below standard, must be asked to leave, at which time they shall be issued a course completion certificate. This system would induce students to study hard, and also increase the sense of instructional responsibility on the part of the teachers. 4) The training of national minority teachers must be intensified, continuously raising their professional competence. For this purpose, all institutions of higher learning may themselves institute graduate student classes, or send some for advanced studies to

key universities in China proper, or even in the case of very gifted middle-aged or young national minority teachers, request higher authority to send them abroad for advanced studies. Apart from this, many of the national minority teachers on active duty must be encouraged to study hard to gain professional proficiency, and progress in their studies shall be made condition for rewards and promotions.

Second, time and curriculum of Chinese language instruction in language classes for national minorities shall gradually be increased and broadened, to enhance the students' proficiency in the use of spoken and written Chinese.

After completion of preparatory courses and on entering into their specialized professional studies, national minority students at Xinjiang colleges and universities find themselves in three kinds of situations in their studies: Either all instruction is in the Uighur language, or all instruction is in Chinese, or instruction is primarily in the Uighur language with the addition of classes in spoken and written Chinese. In my opinion, the first two methods are undesirable under present conditions. If all instruction is in the Uighur language, the preparatory courses lose all meaning, not only will the students not be able to improve their proficiency in the use of spoken and written Chinese, but they will regress in that respect. If all instruction is in spoken and written Chinese, students who have not yet achieved a certain proficiency in Chinese may be unable to understand the instruction in specialized professional fields, and the desire to raise their professional competence will as a result become a case of "haste makes waste." Before the problem of national minority students using spoken and written Chinese in their specialized professional education has not yet been basically solved, I believe the third method is essentially desirable, namely to teach primarily in the Uighur language, but gradually increase the proportion of teaching in spoken and written Chinese, and to gradually effect the transition to teaching completely in spoken and written Chinese.

To say here that teaching should be in spoken and written Chinese may be understood on two levels: One is that after moving on from preparatory courses to regular specialized professional courses, classes in spoken and written Chinese are to be continued, to continuously enhance proficiency in spoken and written Chinese on the foundation of what has already been acquired, while the liberal arts department may possibly consider adding some basic instruction in ancient Chinese, to further improve the students' ability to use spoken and written Chinese. Another meaning is that the teaching time and curriculum of instruction in Chinese in common classes and in specialized professional classes is to be increased and expanded. In this matter, every college and university, and every academic department, must formulate plans, such as in what courses and for how many class hours Chinese is to be used in the first year, and in what classes and for how many class hours again in the second

year, and so on, to be increased every year of instruction. However, two points must have our attention: One is that determination of what courses, how many courses, and how many class hours are to be so taught must depend on the actual proficiency of the students in the use of spoken and written Chinese. Increases must not be made for the sake of increases, as one must also not fail to increase where favorable conditions for increases exist. The other thing to consider is that once instruction is started in a certain language, this language must be used in that class to the very end, and there must under no circumstances be a switching of languages in mid-term.

Third, close links with reality, intensified ideological education of college and university students of all nationalities, stimulating and guiding them to study hard for the sake of the economic development of the mother-country, of one's native place, and for the vigorous development of the nation.

Ideological education is an important component of the entire educational system. Our schools are schools run by socialist new China led by the CPC. Without the slightest doubt they must carry out an ideological education in which Marxism-Leninism and Mao Zedong Thought form the major content. This type of ideological education intends to have the students understand and master the basic principles and basic concepts of Marxism-Leninism and Mao Zedong Thought, and in the case of Xinjiang's students of various nationalities, it is particularly important for them to understand and master the Marxist nationality concepts and nationality theory, and the party and state policy toward nationalities, and as a result to gradually foster a Marxist world outlook, outlook on life, and outlook on nationalities. Of course, this kind of ideological education must not be conducted by merely dealing with theories, endlessly study articles and documents, turning lectures into empty words, and rigidly preach sermons, but what is needed is to link up with reality, vivid and lively instructions, showing ability to answer and resolving the actual questions which the students meet with in real life.

Ideological education covers a broad area, but it is the following aspects that in my opinion must be particularly emphasized as of utmost importance in ideological education. These aspects are:

A. We must make the many students of all nationalities truly aware, from reality to theory, that our great motherland has been created jointly by 56 nationalities, that the long history, splendor, culture, and vast territory of our motherland has been jointly created, opened up, and protected by 56 nationalities. It is therefore the common bounden duty of the 56 nationalities to treasure and protect the unity of our motherland. Development of a socialist modern motherland, and development of every corner and each region of our socialist motherland, is equally the common task of all 56 nationalities. Prosperity and development and flourishing abundance of each

nationality and each region is bound up inseparably and as close as flesh and blood with the prosperity and development and the flourishing abundance of the socialist motherland.

B. With the Marxist outlook on nationalities and the Marxist method of class analysis, we must gain a correct overview of the historical and the present conditions of the relationship between China's nationalities. This means that we must become aware that throughout history the rulers, oppressors, and exploiters of the working people of all nationalities have been the exploiting classes of all nationalities, primarily the exploiting classes of Han-nationality. The working people of all nationalities, including the working people of Han-nationality, have been the ruled, oppressed, and exploited. Throughout history, they have shown sympathy for each other, supported each other, and helped supply each other's needs. China has by now eliminated the system of exploitation and the exploiting classes. Socialist nationality relations of equality, solidarity, and mutual assistance have been established between the various nationalities. This is a relationship between the working people of all nationalities, which clearly shows that in the whole course of history up to the present, in the course of their common work, common struggle, and mutual assistance, a close relationship has been forged, and is now existing, between the working people of China's various nationalities, so that none is able to separate from the others.

C. We must gain an accurate awareness of and correctly deal with the reality of and the reasons for the economic and cultural backwardness of the minority nationalities and the regions mainly inhabited by national minorities,

and must have them work hard to acquire skills to effect a change in their backwardness. Compared with the developed countries, China is economically and culturally backward. Compared with the regions mainly inhabited by people of Han-nationality, especially with the comparatively well-developed regions, China's national minorities and the regions mainly inhabited by national minorities are also relatively backward, economically and culturally. This is a reality that we have to acknowledge. Tracing the reasons for this situation, we find that China's backwardness has been created by suffering long periods of feudal rule and imperialist aggression, while the backwardness in the regions mainly inhabited by national minorities had to endure, as an additional cause, national oppression. Apart from these reasons, backwardness is also due to faults committed in some phases of our work during the last 30-odd years. We must teach the younger generation to face reality, not to indulge in empty talk, to energetically and realistically only pursue modernization of life. They should work with a will to make the country strong, should study hard, master modern cultural and scientific knowledge and special technical skills, build up our motherland, and vigorously develop the nation. Efforts of this nature will certainly bring about a change in the backward situation and have China rank among the developed countries and advanced nations.

In the above I have presented my personal views and put forward my humble suggestions as to how to reform the higher educational system for national minorities. I invite everybody to criticize and correct all my inadequacies.

9808

### Biographics on Chiang Ching-kuo's Extramarital Children

40040065 Beijing XIN GUAN CHA [NEW OBSERVATION] in Chinese  
No 15, 10 Aug 88 pp 25-27

[Article by Shi Siwei 4258 0934 4850: "Chiang Ching-kuo's Twins"]

Chang Hsiao-yen [4545 1321 0917] and Chang Hsiao-tzu [4545 1321 1964], elder and younger brother, are well-known personages in the Taiwan political forum and in academic circles. One is a "deputy foreign minister," and the other is Dean of Studies and Dean of the Law Academy at Soochow University. These 46 year old twin brothers were formerly known as fairy tale "children of a royal family concubine wandering among the common people." Since Chiang Ching-kuo's death, the story of their lives has gradually become known to the outside world. Chang Hsiao-yen, who has always preferred obscurity, even agreed to be interviewed not long ago by YUAN CHIEN [VISION] Magazine when, for the first time, he personally talked about his childhood, growing up, and his aspirations, correcting untruths that had circulated in the past. The Taiwan TUCHIA PAOTAO [PRIVATE REPORT] Magazine also broke taboos in reporting the love affair between Chiang Ching-kuo and Chang Ya-jo [4545 0068 5387]. Chang Ya-jo is also to be depicted in a forthcoming motion picture film titled "Mr Ching-kuo in Southern Jiangxi," that the Taiwan "China Film" Company is now filming. The present article is based on material revealed by publications in Taiwan, Hong Kong, and abroad, as well as notes taken by the writer who interviewed mainland friends of Chang Ya-jo at that time. It summarizes the little known extramarital love story about Chiang Ching-kuo, and the growing to maturity of the two brothers Chang Hsiao-yen and Chang Hsiao-tzu.

### Chiang Ching-kuo's "Golden Orchid Circle"

In the summer of 1937, Chiang Ching-kuo concluded a sojourn in the Soviet Union that had lasted 12 years, and returned to China together with his Soviet wife, Fenna [5358 1226] (who was to be known later as Chiang Fang-liang [5592 2455 5328], and their son Allen (who was later to be known as Chiang Hsiao-wen [5592 1321 2429]. Chiang Kai-shek sent him to Jiangxi Province as a deputy director with the rank of Major General in the Peace Preservation Department, and in the spring of 1939 he went to Ganzhou in Jiangxi Province to assume duties as Administrative Supervisor of the Fourth District. During the summer of the same year, he went to Chongqing to receive training in the Third Party and Government Training Class in the Central Training Corps, after which the Central Training Corps appointed him Director of Arrangements in the Jiangxi Branch of the San-min-chu-i Youth Corps. He returned to Ganzhou to plan the work of the Jiangxi branch of the corps. Henceforth, Ganzhou was to be the stronghold of his political activities.

It was at this time that Chang Ya-jo, the daughter of a scholarly family from Xinjian County in Jiangxi Province, went to southern Jiangxi to join the "San-min-chu-i Youth Corps' Jiangxi Branch Corps Cadre Training Class" (or "Youth Corps Cadre Class" for short). The "Youth Corps Cadre Class" was located at Chizhuling in western Ganzhou. The first class, numbering more than 100, began training in January 1940 and finished in mid-April. Chiang Ching-kuo himself trained the first group of cadres under his personal control.

In order to make the students gravitate more strongly toward him personally, Chiang Ching-kuo espoused a political "circle of comrades," and a "golden orchid circle" in personal relations. He stressed the need for not only "comradely love," but "brotherly feelings." He said, "We should all be as close as a family," and a "brotherly ardor" pervaded classes. In accordance with Chiang Ching-kuo's espousal of "the need for female classmates to have the spirit of males," no distinctions were made between males and females, all of whom addressed each other as brothers. Chang Ya-jo, Wang Sheng [3769 0581] and others sacrificed to heaven and earth and swore fealty to each other in a pine grove at Chizhuling, becoming the "10 sworn brothers." Chang Ya-jo was 28 years old at that time. She was the oldest of the group and the only female student, so she styled herself "eldest brother." When meeting a schoolmate, she would hail them with "young fellow" or "young lad" in an extremely genial manner.

### A Beauty Who Was a Close Friend

Chang Ya-jo was a young lady from a notable family who was quite beautiful and intelligent as well. She was also a skilled writer, could perform in Beijing opera, and sang quite well. She might be said to be gifted in many ways. Many men had competed for her favor, and reportedly a judge had killed himself over her. In order to escape pursuit by admirers, she wrote a very long letter to her mentor, Chiang Ching-kuo, to whom she had long been attracted. In her letter, she poured out her innermost sadness and hopes, and asked that justice be maintained. Chang Ya-jo's candid disclosures moved Chiang Ching-kuo who wrote a reply in which he made an appointment to meet her.

Chang Ya-jo arrived at the commissioner's office, and when the guard led her into the reception room, her elegance and charm suddenly struck the hot blooded Chiang Ching-kuo as being that of an angel. Chang Ya-jo poured out in detail to Chiang Ching-kuo her family's circumstances and her aspirations. Chiang Ching-kuo was most moved by the story of her failure in love. Chang Ya-jo said that an intimate relationship with a man was no longer of importance to her, and that she wanted to make a future contribution to the great war of resistance to Japan.

Chiang Ching-kuo was just 30 years old at that time. As a result of Chang Ya-jo's frank disclosures, he developed a special feeling toward her as a beauty who was a close friend.

Their first meeting had left a profound impression deep within Chiang Ching-kuo's heart, and not long afterward Chiang Ching-kuo had her assigned to the commissioner's office where her first job was to keep track of newspapers and take care of books. Later on, she did any job that had to be done such as sweeping the floors, pouring tea, delivering documents, and writing letters for illiterate people. She also became an outside correspondent for the XIN GANNAN BAO [NEW SOUTHERN JIANGXI JOURNAL] that Chiang Ching-kuo had founded. In short, she did everything very conscientiously, becoming a mainstay of the commissioner's office who stood out from the crowd. There was not a single colleague in the office who did not like her. Every time there was a Japanese air raid, Chang Ya-jo would take the lead in rescue work instead of leaving it to the men, and frequently her whole body would be covered with gore from carrying wounded soldiers. This greatly moved Chiang Ching-kuo. By way of giving recognition to this heroine, Chiang Ching-kuo personally wrote a news item announcing the founding of another mouthpiece for the "princely line," the ZHENGQI RIBAO [JUSTICE DAILY NEWS].

Similarly, Chiang Ching-kuo's resolute style also made the young Chang Ya-jo respect him fervently. She did not try to hide her feelings, but collected photographs of Chiang Ching-kuo from everywhere, which she hung in her bedroom.

She and Chiang Ching-kuo were falling head-over-heels in love with each other, and had a deep attachment to each other.

The people in the Commissioner's Office had discovered the pair's love secret, and were soon discussing it on the sly, but Chiang Ching-kuo and Chang Ya-jo kept their lips tightly sealed. Only Wang Sheng, a young military officer at the time who had a "teacher-student relationship" with Chiang Ching-kuo and who was a bosom friend of Chang Ya-jo, was privy to the hidden feelings of the two.

But gossip is a fearful thing. In order to avoid tarnishing his reputation, Chiang Ching-kuo had no choice but to reluctantly transfer Chang Ya-jo to a job as secretary (copy clerk) in the Ganxian Action Committee, and later to the position of district commander of the San-min-chu-i Youth Corps.

Not long afterward, Chang Ya-jo became pregnant. With the consent of Chiang Ching-kuo, she went, large with child, to a residence at Lishi Second Road in the superbly scenic city of Guilin to await delivery. Before beginning the journey, Chiang Ching-kuo gave a farewell party for Chang Ya-jo at the Zhang Wanshun Restaurant

in Ganzhou. Attending the event were one of the "10 brothers," Wang Sheng, and brothers Gui Changzong [2710 2490 1350] and Gui Hui [2710 6540].

#### Chang Ya-jo's Untimely Death

During the first lunar month in 1942, premature twins were born. Chang Ya-jo gave them the baby names Lir and Shir from the two characters for the name of the street where she resided. According to Gui Hui, who attended Chang Ya-jo, Chiang Ching-kuo visited Chang Ya-jo in Guilin every month, and as soon as he entered the door, he would hold Lir with one arm and Shir with the other, and the whole family would be genial and mirthful. According to the lineage system for the Chiang family, the characters Ch'i, Szu, [character indistinct], Chou, Kuo, Hsiao, Yu, [character indistinct], Ch'eng, and Chang were prescribed as part of the names of children in that generation. Hsiao was selected as the common character to be used in the names of both beloved children to denote their membership in the same generation, and in the same generation as Hsiao-wen and Hsiao-chang, offspring of the same father and a different mother, Fang-liang.

As a result of having lost much blood following childbirth, plus the shortage of medicine during the war years and poor nutrition, Chang Ya-jo suffered from diarrhea during early summer of that year. The director of the Guangxi Provincial Administration at that time, Chiu Ch'ang-wei [6726 2490 3262] sent her by car to the provincial hospital for treatment. Gui Hui said, "I was the only one who accompanied her at that time, but after receiving word, my blood brother, Gui Changzong [2710 2490 1350], hurried to the hospital. The doctors gave her medicine and injections, but a not very extraordinary illness suddenly worsened, possibly for some unknown reason." According to Gui Hui, Chang Ya-jo's death seemed to be a mystery. Cao Juren [2580 5112 0088], who was with Chiang Ching-kuo during the Jiangxi Period, said that when Chang Ya-jo was on her deathbed, Chiang Ching-kuo telephoned her from Chongqing and said, "I acknowledge you to be my wife; be sure to get well!" Li Bai-jiang [2621 4101 3068] and others who were running a newspaper for Chiang Ching-kuo at that time also agreed that Chang Ya-jo was weak after giving birth, and that this plus the limited medical treatment available during wartime had resulted in her unfortunate death; there was no other reason.

Chang Ya-jo was only 32 years old, and she had lived with Chiang Ching-kuo for only 2 or 3 years. When Chiang Ching-kuo received these evil tidings, he grieved profoundly, and at once dispatched his good friend Wang Zhigang [3769 0455 0474] to Guilin to help out with arrangements. Chang Ya-jo was buried in the suburbs of Guilin. Cao Juren said that Chiang Ching-kuo was rather dispirited for 1 or 2 months. He wrote a poem of mourning in the vernacular from between the lines of which his extreme longing for Chang Ya-jo shows.



Fearing damage to his reputation, Chiang Ching-kuo could not formally bring into the family the twin boys to which Chang Ya-jo had given birth. Instead, he sent them to Wan'an in Jiangxi to be brought up by Chang Ya-jo's mother. Chang Ya-jo's father had been a county magistrate during the Qing Dynasty, and her mother had been a young lady from a notable family named Zhou. She had a strong personality. In order that these twin boys might live a normal life, she turned them over to Chang Ya-jo's oldest brother, Chang Hao-jo [4545 3185 5387], who was a county magistrate in Tongren County, Guizhou Province, and who had the same surname as their mother.

#### Poverty Stricken Childhood Years

In 1949, Chang Hsiao-yen and Chang Hsiao-tzu, accompanied by a member of Wang Sheng's household, were taken to Taiwan by their maternal grandmother and their second maternal uncle, Chang Huanuo [4545 3183 5387]. These arrangements had been made by Chiang Ching-kuo, who had them leave Xiamen by a military vessel for Keelung. Later on, they went to live in Lane 151, Chungyang Road, East Gate, Hsinchu. This was a shop near the Chenghuang Temple. Though their uncle was a scholar, he had to go into business to eke out a living for the family. He sold articles used in everyday life, as well as tobacco and alcoholic beverages. He also operated a rice shop and a rice mill. Chang Hsiao-yen and Chang Hsiao-tzu went to school at the "National Primary School" in the East Gate section of Hsinchu, and after school they also helped their uncle sell wares displayed on the ground, sell steamed breads, and sell leather belts. They personally witnessed the failure of their uncle's business, and the predicament of creditors confiscating his house. They also personally witnessed their uncle's humiliation at the hands of his creditors, so ever since childhood, Chang Hsiao-yen resolved to become a lawyer.

From "National Primary School" in Hsinchu, the brothers entered Provincial Chungli Middle School, went on to Soochow University, and then went abroad for advanced study. They completed virtually all of their schooling through part-time work and part-time study. At that time, they did not want to talk about their own life experience. According to Taiwan publications, out of fear of "tarnishing his reputation," Chiang Ching-kuo never allowed the twins to experience a father's love, and this was an unavoidable sadness such as one did not discuss.

In reflecting on his childhood life, Chang Hsiao-yen felt a profound attachment to his maternal grandmother and his maternal uncle, particularly his maternal grandmother. Chang Hsiao-yen said, "Her indomitable will, and her way of not bowing to adversity, as well as her loving heart, and rearing me and my brother to maturity in extraordinarily difficult circumstances had a far-reaching effect on me. She made me have more stamina than most men of the same age, and a rather marked

cool-headedness." Consequently, "even though mother died early, and father could not be with me, I felt no lack of love in my childhood years. Grandma's love and uncle's concern filled the vacuum left by mother and father, and my personality also developed normally." When grandma became ill, she only went to a hospital once. From then on, she had uncle buy proprietary medicines called for in a book she had him read. One winter morning, the two brothers awoke to find that their grandma, who slept in the same room, had passed away in the middle of the night while they were sleeping soundly. This was a most severe blow for the brothers.

When grandmother was alive, though they had the loving care of the old person, the sadness of their spiritual life and the hardships of their material life were such that ordinary people would find difficult to imagine. For example, when they quarreled with schoolmates or were treated unjustly, there was no one at home to whom they could turn to talk, and they felt extremely bad. Despite some advances in Taiwan's economy during the 1960's, there had been no improvement in their lives. Second uncle had seven children, but only two rooms. Chang Hsiao-yen and Chang Hsiao-tzu shared one room with the grandmother, the brothers sleeping together on a bamboo bed. Each of them had a desk in a hallway. All the award certificates they had won were first displayed on their desks, then affixed to the walls row upon row, and by the time they graduated from senior middle school, they were affixed to the ceiling as well. The house had no upholstered furniture; all the furniture was made of bamboo. It did not even have a radio and an electric fan, which were both very common at that time, to say nothing of a television set. After entering college, their finances remained very tight. They had to request extensions of time to pay their tuition, and they were dependent for living expenses on tutoring after hours.

Speaking about those difficult days, Chang Hsiao-yen said with great understanding, "I felt that the more I suffered, the tougher I became, and the more compelling became my drive to get ahead." "It enabled me to know real life, and to understand the so-called true misery, and the sorrows and joys that people experience."

Chang Hsiao-yen said that he had entered the Taiwan "Ministry of Foreign Affairs" by passing the examination, and through dog-eat-dog competition, not special consideration from anyone. He said that when he was sent to The Taiwan "embassy" in Belgium as a student in 1970, Taiwan's "ambassador" to Belgium, Ch'en Hsiung-fei [7115 7160 7378] had no idea of his background. The following year, when he married Huang Meilun [7806 5019 0243] in a religious ceremony, in order to avoid inviting the heads of both families as well as relatives and friends, which would occasion difficulties, they decided to marry in Belgium. Ch'en Hsiung-fei did not even attend the ceremony. Instead, Chang Hsiao-yen and his wife simply invited several Chinese classmates to dinner. Later on, he served in the Taiwan "embassy" in the United States where, from the very



beginning, he found rents too expensive. All he could do was sleep with his wife on the floor of a colleague's home. It was not until April 1975, when Chiang Kai-shek died and Chang Hsiao-yen returned to Taiwan for the funeral, that the "ambassador" to the United States, Shen Jian-hong [3088 0494 5725], suddenly wised up.

#### **"Taiwan Independence," Three Dead End Streets**

As more and more came to be known about Chang Hsiao-yen's life, the Taiwan press said that his every move is inevitably "spied on" for gossip, yet he still "has not lost his own distinctive character." Among Taiwan officialdom, there is no lack of photographs taken with Chiang Ching-kuo. Such photographs are usually hung in a conspicuous place to show them off, and are the most central item in an office. In Chang Hsiao-yen's office, however, there are only two photographs. One is a family photograph of himself, his wife, their son, and their daughter. The other is a photograph with the children. Only in his bedroom can one find a photograph with Chiang Ching-kuo.

Ever since their days in primary school, Chang Hsiao-yen and Chang Hsiao-tzu have associated with Taiwanese classmates. They learned to speak Hakka and Taiwan dialect, so they say that they have never had any feeling that there is a problem about provincial origins. When a reporter wanted Chang Hsiao-yen to express his views about the "Taiwan Independence" issue, he replied very straightforwardly: "This is not a dead end street; it is three dead end streets." Our government does not approve it; the Chinese communists oppose it as well; and America's signing of the Shanghai Communique is also a formal expression of opposition. This is not one dead end street; it is three dead end streets."

When they were little, Chang Hsiao-yen and his brother Chang Hsiao-tzu were rarely apart, and when they ran into difficulties, they helped each other and encouraged each other. Chang Hsiao-yen said, "Though we had no cardioelectric response, we had the same intentions, and

we knew what each other were thinking." Nowadays, the two brothers are busy and rarely see each other; however, they usually maintain fairly close contact by telephone.

Chang Hsiao-yen does not deny that after the two brothers graduated from university, one or two gentlemen helped them financially. As regards Chiang Hsiao-wu [5592 1321 2976], a brother from the same father but a different mother who is three years younger than they, since they grew up under different circumstances, their character is very different. In a commentary on the two brothers, the Taiwan ZILI TSAOPAO said: "When they were still young and full of vigor, when evaluations of the work performance of the two sets of brothers differed, any rumors about the Chiang brothers feeling resentful toward the Chang brothers spread like wildfire. However, with the passage of time, after the two sets of brothers entered middle age, they began to have the compatibility that goes with blood being thicker than water." Chiang Hsiao-wu, the current "deputy representative" of Taiwan in Singapore, is a subordinate of Chang Hsiao-yen. During Spring Festival in 1987, when Chang Hsiao-yen and his family went to India on vacation, they went by way of Singapore to show that they were "especially thinking about relatives during a fine holiday." Every time he returns to Taiwan, Chiang Hsiao-wu also pays a call on Chang Hsiao-yen, his superior and older brother.

Both the father and the mother of the Chang brothers are dead. Chiang Ching-kuo, who was renowned for adherence to the requirements of filial piety, was also unable to return to his native place to pray and sweep the grave of his blood mother, who had the surname Mao, and this was a matter for regret throughout his whole life. Li Pai-chiang, who followed Chiang Ching-kuo around for many years back then, and who had a casual acquaintance with Chang Ya-jo wrote in an American magazine, "Thinking about the interests of the Chang brothers, their mother's grave is in Guilin in Guangxi Province, and for children to return to sweep the grave is a requirement of filial piety." This is also a wish that is shared by the relatives and friends of the Chang's on the mainland.

**'China Complex,' 'CPC Complex' Harass  
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*40050013 Hong Kong CHIUSHI NIENTAI [THE  
NINETIES] in Chinese No 223, 1 Aug 88 pp 35-37*

[Article by Chiu Chui-liang 6729 0987 0081: "New Mentality Needed for Taiwan to Achieve Diplomatic Breakthroughs"]

[Excerpts] Last April I received invitations from CHUNGKUO SHIHPAO and LIENHE PAO in Taipei asking me to attend two seminars on national affairs to be held in early June and late December, respectively.

**Academic Community Falling Behind Changing Times**

This seminar centered upon five major topics: "constitutional rule," "achievement of democratic politics," "upgrading the economy and interest distribution," "mainland policy," and "diplomatic breakthrough." A dozen or so Chinese and foreign professors delivered papers and another dozen served as commentators. Although it was attended by over 100 well-known leading intellectuals, the seminar was not purely an academic conference, but a political move made by intellectuals in response to the coming 13th National KMT Congress scheduled for 7 July.

At a certain level, what was said and done at the seminar reflects the psychology and expectations of the ruling party, the KMT, as it seeks to reform and adopt new policies in response to changing times. But I was both surprised and delighted at what I discovered at the seminar about something even more important, the methods and objectives of political reform.

What surprised me was that among the intellectuals invited by CHUNGKUO SHIHPAO, the best and brightest of an entire generation, a majority remain so conservative and so indifferent to and unsympathetic with the earth-shaking changes that have occurred in Taiwan politics, economics, and society in the post-Chiang Ching-kuo era and the great reform and transformation in politics, in the economy, and in the ecological environment which 20 million people had longed for so eagerly. Lifelessly and languidly they still try to justify and drum up support for the old corrupt power structure that has monopolized political resources for so long.

What delighted me was the discovery during the 3-day meeting that I have not grown conservative or rigid. There is still so much on freedom, equality, human rights, justice, reason, the rule of law, and democratic politics I can and need to say. I can still make contributions as a man of letters.

Professors at the seminar held liberal and open-minded views on mainland policy, which has changed a good deal, and diplomatic breakthrough, which has hardly changed at all. They thought that as far as diplomatic relations are concerned, KMT decision-makers should

proceed from reality and not indulge in wishful thinking or be hamstrung by rigid ideology or the argument over national name, which is a question of face. By imposing limits on themselves and tying their own hands, professors argued, the KMT leaders have lost the courage to take the initiative to break new ground in international politics and compete with the CPC regime. Concerning the new mainland policy, the professors thought that the current government policy allowing visits to the mainland is too timid and not liberal or forthright in the least. On the issue of permitting "direct mail, flight, and shipping" arrangements between the two sides, the government is even more wishy washy and has no clear-cut position. On the one hand, it has thrown some innocent businessmen into jail for such crimes as "colluding with the bandits" and "providing bandits with capital." On the other hand, it justifies and comforts itself with such inexplicable explanations as the following: "mail can be exchanged between the two sides, but there can be no direct postal services," "trade is allowed, but there can be no exchange of businessmen," "ships and planes can travel between the two, but there must be no direct services."

Seminar participants proposed that Taiwan engage in "three contacts and four exchanges" with the mainland. Whether it be trade, tourist, sports, academic or cultural exchanges, the more, the better. The more exchanges there are, the better able Taiwan will be to launch a "political counterattack," defeat Chinese Communist dictatorship with freedom and democracy, introduce the Taiwan model and Taiwan experience into the mainland, and help or perhaps force China to take the road of freedom and democratic modernization. If mainland China too embraces democracy and modernization, then the reunification of China will come about naturally and will no longer present any problem.

This should have been something everybody could agree on. Strangely enough, in the end the professors and experts too could not free themselves from the political straitjacket—the "CPC complex" and "China complex"—which has hemmed in the KMT leadership for 40 years. They went back and forth over the issue of diplomatic breakthrough; in the final analysis, what they said merely boiled down to this: in international power politics, whatever the CPC opposes or disallows, Taiwan cannot do. Some even said that as long as the CPC raises no objections, any issue relating to Taiwan's international legal status can be resolved. Thus whatever the formula, be it the German model, multi-nation model, confederation, or federation, if only CPC gives its nod, Taiwan can go ahead. Otherwise Taiwan cannot make a move. A majority of the professors and experts even agreed with the Chinese Communists' contention that the division between the mainland and Taiwan is politically different from that between East and West Germany or that between North and South Korea and cannot be mentioned in the same breath. The latter countries' two-nation model is inapplicable to China.

On this point, I agree with Chang Hsiao-tzu [4545 1321 1964], dean of the law school at Tong Wu University. The historical process in which China's breakup came about might differ from its German or Korean counterpart. After the breakup, however, two de facto regimes and two political systems came into existence. This is as much a fact in the case of China as in the case of Korea and Germany. I would even go further and point out that under international law, a regime that exercises effective rule over a group of people in a territory with well-defined boundaries ipso facto constitutes a state with full sovereignty. By that definition, Taiwan is an "independent state" with full sovereignty, pure and simple.

My claim that Taiwan has "independent sovereignty" proved unacceptable to a majority of the experts and scholars suffering from the "CPC complex" which says that you must take your cue from the CPC and act accordingly. The existence of the "China complex" only makes things worse. The "China complex" works like this: even though the CPC and KMT are locked in a life-and-death struggle, even though they have ruled the mainland and Taiwan separately for 50 years, even 100 years, they insist that "Taiwan is a part of China" and that "some day, China must be reunified." This is how the rest of the world figures: Since you yourself recognize Taiwan as part of China, what else can we say? We, all 150 nations, recognize that the CPC rules China and is China's legitimate government. Clearly we cannot recognize you Taiwan as an independent regime and an independent state.

Chen Chang-wen [7115 7022 2429], a lawyer, put forward the notion of "continental China" and "island China." Actually the idea of "island China" was raised many years ago by American scholars. While professors like Chen Chang-wen and Chiu Hung-ta [8002 1347 6671] argued at length and harped on the reality of two separate political systems, they too succumbed to the "China complex" by adding this caveat, that they were only realistically trying to extricate Taiwan from its diplomatic impasse under the principle of one China. What kind of extrication is this? Verbally, they reiterate the idea of one China. Practically, they take their cue from the CPC and act accordingly. How tough!

Hsiung Chieh [3574 3775], a professor at New York University, and Harvey Feldman, a former U.S. deputy representative to the United Nations, disclosed and confirmed at the seminar that in the dozen years or so before the U.S. and the CPC established diplomatic relations, the U.S. repeatedly expressed its support for dual recognition—"one China, one Taiwan" or "two Chinas"—but dropped the idea when Taiwan insisted on one China.

As a matter of fact, if Taiwan must force a showdown with the CPC instead of negotiating with it about peaceful reunification, it must declare the political reality of "two Chinas" or "one China, one Taiwan" sooner or later. Some people argue that there is no point in

prolonging the agony; better make the declaration now than later. This is an extremely difficult strategic and policy decision. Obviously there is as yet nobody in the KMT who has the courage and power to make this decision.

No doubt the "CPC complex" and "China complex" will continue to bedevil Taiwan's mainland policy and diplomatic relations for a long time to come.

As for the achievement of democratic politics, most seminar participants were clearly pro-KMT and rose to its defense, even casually and contemptuously brushing aside the political role and contributions of the extra-party democratic movement and the Democratic Progressive Party [DPP] in the last 20 years. To these people, both the democratic movement and the DPP, particularly the likes of Chu Kao-cheng [2612 7559 2973], are all undemocratic and even violent Taiwan-independence elements who deserve to die ten thousand times and should be imprisoned if not killed. It is really shocking and disappointing to hear professors and scholars with doctoral degrees from American universities make such unjust and undemocratic remarks.

"Don't give them democracy if they do not renounce Taiwan independence." Noisy demands like this divide Taiwan politics into two irreconcilably hostile camps, us versus them. In this case, what future is there for democracy in Taiwan?

A host of party and government officials, including Deputy General Secretary Ma Ying-chiu [7456 5391 0046] of the KMT and Deputy Minister of Foreign Affairs Chang Hsiao-yen [4545 1321 0917] attended and addressed the seminar—"welcome the challenge and introduce reforms"—organized by CHUNGKUO SHIHPAO. Outside the seminar, meetings and discussions were arranged with Li Teng-hui [2621 4098 6540], president of Taiwan; Yu Kuo-hua [0205 0948 5478], head of the Executive Yuan; Li Huan [2621 3562], secretary general of the KMT, and other top leaders. Yet among the more than 100 political and academic leaders at the seminar, there was not a single representative from the DPP. Nor were arrangements made to meet with them outside the seminar. This shows the split and confrontation between government and opposition and the lack of communication and even polarization between them, an unhealthy political phenomenon.

If these learned and thoughtful intellectuals cannot bring themselves to honestly and fair-mindedly appreciate Chu Kao-cheng, the "May 20" peasant movement, and the democratic journey the DPP and extra-party figures have travelled in the past 20 years, how are they able and why do they have the right to make suggestions regarding the achievement of democratic politics in Taiwan?

**Business Circles' Perception of Recent Cabinet Reshuffle**

40050010b Taipei TZULI WANPAO in Chinese  
1 Aug 88 p 2

[Text] According to a poll conducted by the Tungling magazine in its August issue, 48.8 percent of enterprise managers are satisfied with the cabinet reshuffle and 34.5 percent are not satisfied. With regard to the degree of satisfaction on financial and economic officials, Kuo Wan-jung [6753 1238 1369] ranks highest with 69.3 points and Zhang Chi-cheng [1728 4949 2973], president of the Central Bank, ranks lowest with 41.4 points.

The result of this poll was published in the August issue of the TUNGLING magazine, which was distributed today. About half of the 215 enterprise managers interviewed for the poll expressed satisfaction with the recent reshuffle of the Executive Yuan because they think that the new cabinet displays such characteristics as youth, more enthusiasm and experience, a higher education level, and less bureaucracy. Those who were not satisfied think that the reshuffle is only a change in form but not in essence, that all cabinet members are familiar faces, that assignments are inappropriate because too many of them are not assigned to their own line of work.

With regard to the evaluation of financial and economic officials, enterprise managers were most satisfied with Kuo Wan-jung, the Minister of Finance, and 69.3 percent were in favor of her because they think she is highly educated, experienced, honest, and upright. Only 5.6 percent were not satisfied with her because they think she is too conservative and not bold enough.

About 51.2 percent were satisfied with Chien Fu [6929 1788], chairman of the Commission for Economic Construction because they think he has a good relation with the United States and the ability to carry out reform and negotiation, and is the right person for the job. However, the percentage of dissatisfaction was also very high, accounting for 35.8, and the main reason was that they think he is inexperienced and has no speciality.

About 47.4 percent were satisfied with Chen Luan [7115 1462 1344], the Minister of Economy, because they think he is competent and meets the scientific and technological needs of the transitional period. Only 25.2 percent were dissatisfied with him mainly because they think he cannot use what he learned, has no speciality, and lacks experience in civilian contacts.

As for the reelected president of the Central Bank, only 41.4 percent were satisfied with him, which was the lowest among all financial and economic officials. Enterprise managers interviewed think that he is experienced and prudent. About 27.4 percent were dissatisfied with him because they think he lacks initiative and his performance is mediocre.

**Biographical Data on Shirley Kuo**

40050010a Taipei TZULI WANPAO in Chinese  
17 Jul 88 p 2

[Article by reporter Chu Nai-an 5969 5082 1344: "Kuo Wan-jung Studies Economics, Becomes Famous in the International Academic Circle, Ascends to the Core of Power, and Influences Financial and Economic Policies"]

[Text] With the reputation and position she established in the international economic and academic circle and the achievements she made in years of research on Taiwan's economic issues, Kuo Wan-jung, first female member of the Kuomintang (KMT) Central Committee, will exert considerable influence in the future financial and economic policies of the power core.

Kuo Wan-jung was born in 1930 in Chiao-tsai Liao, Peimen Village, Tainan County. Raised in a rural doctor's family, she has loved reading ever since she was a child. She graduated as an outstanding student from the Tainan Girls' Middle School, the Department of Economics of the National Taiwan University, and the Massachusetts Institute of Technology.

After she returned from the United States, she taught at the National Taiwan University. During that period, she was often entrusted by then Commission of Economic Coordination and the Ministry of Finance to study various issues. Since her opinions showed keen insight, she was greatly appreciated by the authorities. In 1973, she accepted the job as the Vice Chairman of the Commission for Economic Construction and thereby launched her official career.

In 1979, Yu Kuo-hua [0205 0948 5478], president of the Central Bank, asked Kuo Wan-jung to assist in the operations of the Central Bank by offering her the job as vice president, which made her become the woman holding the highest official position in Taiwan.

Her marriage to Ni Wen-ya [0242 2429 0068] in the 1960's has been, of course, a big help to her official career, but her own economic studies and achievements are main reasons for her rise to power.

However, Kuo Wan-jung had a tragic marriage earlier. When she was younger, she married Liu Ching-jui [0491 1987 3843], a constitutional scholar, but unfortunately, Liu died young. The true love between this couple is still deeply remembered by friends of an older generation.

Kuo Wan-jung's life is almost inseparable from books. Her speciality is to use metrological economics to study and explain the economic development of developing countries. In recent years, many countries were very interested in the miracle of Taiwan's economic success. With her meticulous collection of data and solid theoretical basis, she became the top international expert on Taiwan's experience.

In 1985, she published a book in English, entitled "Taiwan's Economy in the Transitional Period" which made her a celebrity among international economic scholars and won her the recognition of professor of Kobe University in Japan as well as a long-desired doctoral degree.

This book made her become the "representative of Taiwan" in the international economic circle. When the famous Office of Economic Cooperation and Development (OECD) and the Nobel Economic Prize Committee want to get some information on Taiwan, the contact they most often thought of is Shirley Kuo.

At the present, Kuo Wan-jung is the vice president and spokesman of the Central Bank, but she virtually never holds any press conference nor explain or defend the policies of the Central Bank. According to employees of the Central Bank, Kuo Wan-jung devotes all of her time to research and uses the results for policy reference, so her proposals, which are supported and backed by full and accurate data, can always be accepted.

Kuo Wan-jung thinks that high economic growth is important but we must not ignore the even distribution of income. For instance, income disparity between farmers and non-farmers and between rural and urban areas must be narrowed; income tax should not be raised in order not to increase burdens for wage earners. Speeding up the construction of public facilities is a task that must be carried out vigorously.

On the eve of cabinet reshuffle, whether or not she will become a female minister has become the focus of attention. No matter what, her political value is rising, and she will exert greater influence in the future financial and economic policies of the government.

#### **Profile of Chang Hsiao-tzu**

40050012 Hong Kong CHAO LIU [TIDE] in Chinese  
No 17, 15 Jul 88 pp 15-17

[Article by Liu Junzhi 0491 0689 2535 in the column of "The Third Generation of Taipei's Politics," entitled: "Chiang Ching-kuo's Son Tries the Challenge of Free Election."]

#### **[Text] Campaign for the Delegate to the 13th KMT Congress**

In Taiwan, people of all strata are highly interested in politics. So it is always exciting and competitive for every free election even if it is only to elect a neighborhood leader.

The 13th KMT Congress opened on 7 July in Taipei. Most positions of party delegates were open to election and the competition was fierce. Chiang Ching-kuo's sons—Chiang Hsiao-wu [5592 1321 2976], Chiang Hsiao-yung [5592 1321 0516], and Chang Hsiao-tzu—won by landslide in different party branches.

Chiang Hsiao-wu and Chiang Hsiao-yung are children of Chiang Ching-kuo and his first wife, Chiang Fang-liang [5592 2455 5328]. Chang Hsiao-tzu is the son of Chiang Ching-kuo and his mistress Chang Ya-jo [4545 0068 5387].

Chiang Hsiao-wu, 45, won most votes among the 13 party delegates of the KMT branch of news agencies. Chiang Hsiao-yung, who has always been a businessman, won as a delegate of the KMT branch of industrial and trade departments. Chang Hsiao-tzu, 46, has long been a professor at Tungwu University of Taipei and is usually not involved in political activities. So when he ran for the delegate to the 13th KMT Congress as a representative of the KMT branch of northern educated youth, his friends were quite surprised.

Those who are elected party delegates have the chance to be elected members of the KMT Central Committee. However, the rumor that Chang Hsiao-tzu will run for the head of Hsinchu County is probably a premature prediction.

#### **Mother Chang Ya-jo and Twin Brothers in Guilin**

The three sons and one daughter borne by Chiang Fang-liang, who was a Russian, have Russian blood. Chang Hsiao-tzu and his twin brother Chang Hsiao-yan [4545 1321 0917] are pure Chinese. Chang Hsiao-yan is also a member of the KMT and his current title is deputy director of the General Affairs Office of the Ministry of Foreign Affairs.

Chang Hsiao-tzu's mother, Chang Ya-jo, was born in Wanan County of Jiangxi Province. Wanan County is located between Jian and Ganzhou in the southwestern part of Jiangxi Province.

In the early 1940's, Chiang Ching-kuo was the commissioner of Ganzhou in Jiangxi Province. He also held a position in the Jiangxi Provincial Youth League of the Three People's Principles to promote a great project, called "the new construction of southern Jiangxi." In order to train cadres, he started a training class for the cadres of the youth league in southern Jiangxi, and Chang Ya-jo enrolled in this class along with Wang Sheng [3769 2573] of Longnan County of southern Jiangxi. Wang Sheng later became a member of the KMT Central Standing Committee and director of the General Political Department. He is now the ambassador to Paraguay.

Chang Ya-jo was very lively and had literary and artistic talents. After graduation, she found a job at the Ganzhou Commissioner's office and fell in love with her teacher Chiang Ching-kuo. Calling each other "Hui Feng [1979 7685]" and "Hui Yun [1979 0061]," they were deeply in love.

In 1942, Chang Ya-jo gave birth to twins—Chang Hsiao-yan and Chang Hsiao-tzu—who were nicknamed Li Er [7787 0334] and Shi Er [3740 0334] for their mother then lived on Li Shi Shang Road of Guilin.

Less than 6 months after the childbirth, Chang Ya-jo went to the Guangxi Provincial Hospital for diarrhea and died there shortly after.

Some people said that Chang Ya-jo was assassinated on the orders of Chiang Kai-shek, which is not true. I once asked a person who had contacts with Chiang Ching-kuo about Chang Ya-jo's death and he said it was caused by a doctor's mistake.

Although Chang Hsiao-yan and Hsiao-tzu were born of a concubine, they were the first grandsons of Chiang Kai-shek. So he was very happy and gave them the middle name Hsiao, which was used for his grandsons. This was the same as claiming them as his grandsons.

#### **Maternal Grandmother and Uncle Raised Them**

Chang Hsiao-tzu and Chang Hsiao-yan were raised by their maternal grandmother and their mother's older brother. They lived in Wanan County of Jiangxi, Chongqing, and Guizhou. Their uncle once served as the head of Tongren County of Guizhou.

In 1948 after the Xubang Battle broke out and the political situation became critical, Chiang Ching-kuo told his subordinates including Wang Sheng to make arrangements for Chang Hsiao-tzu and his brother and maternal grandmother to go to Xiamen, Fujian. In 1949, they arrived at Chilung by warship and then moved to Hsinchu to settle down.

A few years ago, when Wang Sheng was still a member of the KMT Central Standing Committee and director of the General Political Department, the rumor had it that Chang Hsiao-tzu and his brother were raised by Wang Sheng and that the two brothers "competed for favors and power" with Chiang Hsiao-wu and Hsiao-yung. Such rumors put Chang Hsiao-tzu and his brother in a difficult position. Chang Hsiao-tzu used to publish legal commentaries now and then in major civilian newspapers such as "Lian He Bao" and "Zhong Guo Shi Bao," but due to these rumors, he has avoided "showing up" in public media.

In fact, ever since Chang Hsiao-tzu and his brother arrived in Taiwan, they have been raised and educated by their maternal grandmother and uncle. They were very poor when they attended the elementary and middle schools in Hsinchu. They had to apply for deferred payment on tuition even when they were in college. Of course, Wang Sheng and Sung Shih-hsuan [1345 2514 6693] also looked after them. Sung Shih-hsuan once served as chairman of the National Salvation League and chairman of the KMT Central Organizational Work Commission.

#### **Hard Days in Hsinchu, Taiwan**

When they first arrived in Hsinchu, Chang Hsiao-tzu's uncle opened a small sundry shop at the town god's temple in the urban area. Later, he opened a grain mill. But because he was, after all, a scholar and not good at management, all his businesses failed. This was the reason why they had financial difficulties.

In the 1950's, Taiwan's economy was very backward, people lived in straitened circumstances, and government employees' wages were very low. Through Wang Sheng, Chiang Ching-kuo gave Chang Hsiao-tzu and his brother some financial assistance, but the amount was very limited because Chiang Ching-kuo wanted them to temper their will in hardships and avoid getting the bad habits of pampered sons of wealthy family.

The status of Chiang Ching-kuo prevented Chang Hsiao-tzu and his brother from claiming their father and it was very painful to them. During an interview with the "Yuan Chien" magazine of Taipei, Chang Hsiao-yan said: "My maternal grandmother's love and my uncle's concern filled the blank spot left by my parents and made it possible for me to develop a normal personality."

Talking about his boyhood in Hsinchu, Chang Hsiao-yan said: "In those days, my younger brother and I were very lively and naughty. We caught snakes, roasted sweet potatoes, and hit doves with slingshots just like ordinary children. Come to think of it now, we were quite happy during the period from elementary to middle schools."

#### **Eight Years of Collge and Study for Ph.D. in the United States**

Chang Hsiao-tzu looks exactly like Chang Hsiao-yan except that he has a mole on his lips. From their faces, we can see the image of young Chiang Ching-kuo.

After he graduated from the middle school, Chang Hsiao-tzu passed the entrance examination and was admitted to the Department of Chinese Literature of Tungwu University of Taipei. Four years later, he got a bachelor's degree in liberal arts. But he became interested in law, so he went to the law school and got a law degree 4 years later.

Tungwu University is a private school moved from mainland China to Taiwan. It was famous because of its law department in the mainland. After it moved to Taiwan, its reputation is still the same.

In college, Chang Hsiao-tzu worked as a private tutor and earned his tuition and pocket money by tutoring middle school students. This period served as a trial in the journey of his life.

After he left Tungwu University, first he went to Southern Methodist University in Texas and got a master's degree in political science; then he enrolled at Tulane University to study for a doctoral degree in law. In 1976, he got the degree. He was 34 years old.

Taiwan now has \$60 to \$70 billion in foreign exchange reserves. But in the 1960's and 1970's, most families in Taiwan could not provide all expenses needed by their children for studying abroad. Very few Taiwanese students studying in the United States did not have to earn their tuition by working during summer vacations. Chang Hsiao-tzu was no exception. He did all kinds of work. He worked for a security company as a security guard and carried trays at restaurants, but almost nobody knew that he was Chiang Ching-kuo's son.

#### **Teaching at the Law Department of Tungwu University**

After completing his doctoral course, Chang Hsiao-tzu stayed in the United States and engaged in research and teaching for about 1 year. In 1978, he returned to Taipei and worked as an associate professor at the law department of Tungwu University. Two years later, he was promoted to professor and dean of the law college. In 1986, he replaced Liu Yuan-chun [0491 6678 0193] as Dean of Studies.

Tungwu University is a very large school. It has over 11,000 students taking courses in five colleges, 20 undergraduate departments, and six graduate departments. The administrative burden on the Dean of Studies at a school like this is very heavy. According to the professors of Tungwu University, Chang Hsiao-tzu is a very competent administrator who pays special attention to hiring highly qualified teachers.

Chang Hsiao-tzu, who had academic training in the United States, uses American-style elicitation method of teaching at Tungwu University to teach students how to think through discussions. The courses he teaches such as "American Constitution" and "American and British Laws on the Behavior of Infringement of Rights" are very popular among students.

#### **Sweeping Victory and Emotional Substitute**

Due to years of special training in law, Chang Hsiao-tzu is a careful thinker, logical debater, and polite speaker. He gives people the impression of a gentle, intelligent man.

He used to publish articles now and then but was not involved in politics. As a matter of fact, it was very difficult for him to be involved in politics when Chiang Ching-kuo was alive, so nobody thought he could run. This time, he ran for delegate to the 13th KMT Congress

because Chiang Ching-kuo had died and there was no need to avoid politics. He probably wanted to test himself in the competition and take the new challenge on fair ground.

His landslide victory can be attributed to the fact that he has laid a solid foundation in Tungwu University and the academic circle, that his courses are popular, that his administrative ability has been tested for 8 years, and that the KMT Branch of Educated Youth has canvassed for him. Chiang Ching-kuo was a long-time leader of the KMT. The economic miracle and the political reform he carried out in Taiwan are obvious to all. Some KMT members who respect and miss him often transform their loyalty to him and their memory of him into support for Chang Hsiao-tzu. The psychological factor of such "emotional substitute" also contributed to the landslide victory of Chang Hsiao-tzu in the election of delegates to the 13th KMT Congress.

#### **Possibility of Running for the Head of Hsinchu County**

After he was elected a delegate to the 13th KMT Congress, Chang Hsiao-tzu began normal activities to campaign for the membership of the KMT Central Standing Committee. In addition to campaigning for the support of delegates in the academic circle, he went back to Hsinchu County, where he spent his childhood, and visited Chen Chin-hsing [7115 6651 5281], head of Hsinchu County, Chou Ching-chih [0719 3237 3112], general secretary of the county assembly, and other local KMT delegates.

Some people asked him if he will run for the head of Hsinchu County or the mayor of Hsinchu City (Hsinchu City is under the jurisdiction of Hsinchu County). He said it is too early to talk about it.

The election of Hsinchu county head and city mayor will be held in late 1989. If Chang Hsiao-tzu becomes a member of the KMT Central Standing Committee, it will be possible for him to run for Hsinchu county head or Hsinchu city mayor. He grew up in Hsinchu. Many of his old friends and classmates are influential in the political and commercial circles there. His father-in-law, Chao Shan-tang [6392 0810 1016], who used to be an air force officer, also lives there after he retired and is familiar with that district. In addition, since Hsinchu is a college town, voters there are likely to accept his image. All these are favorable factors for his campaign for the position of a local administrative official.

However, since Chang Hsiao-tzu has been a professor at the university, he has no family background in the political circle of Hsinchu County; nor has he established his own influence there. To compete for an official position in Hsinchu, he needs to make wide-range preparation and cultivate local affinity.

**Hong Kong Banks Lend More to Mainland Borrowers**

*OW2208002888 Beijing XINHUA Domestic Service  
in Chinese 1356 GMT 21 Aug 88*

[Text] Hong Kong, 21 Aug (XINHUA)—According to statistics released by the Hong Kong government, as of the end of June this year, Hong Kong banks had extended to non-bank clients on the Chinese mainland loans totaling HK \$27.07 billion, a 64.27 percent increase over last year's corresponding period in which the loans totaled HK \$16.479 billion.

According to Hong Kong banking circles, most Hong Kong banks are interested in extending loans to borrowers on the Chinese mainland, and they are particularly interested in joining Hong Kong's Chinese-owned banks in extending the loans. According to the banking circles, 96 percent of loans to the mainland borrowers are in foreign currencies other than Hong Kong currency. This shows that the mainland needs to continue to import technology and equipment to enhance the competitive power of its export commodities.



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